1.1. CREDIT RISK

QUALITATIVE INFORMATION

1. GENERAL ASPECTS

The Group's strategies, Risk Appetite Framework, and Powers and Rules for credit granting and management are aimed at:
- achieving a sustainable goal consistent with the Group's risk appetite and value creation objectives, whilst guaranteeing the quality of its lending operations;
- diversifying the portfolio, limiting the concentration of exposures to counterparties/groups, economic sectors or geographical areas;
- efficiently selecting economic groups and individual borrowers through a thorough analysis of their creditworthiness aimed at limiting the risk of insolvency and mitigating potentially associated losses;
- given the current economic climate, favouring lending business aimed at supporting the real economy and production system and at developing relationships with customers;
- constantly monitoring relationships and the related exposures, through the use of both IT procedures and systematic surveillance of positions that show irregularities with the aim of detecting any symptoms of deterioration in a timely manner.

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.
It is important to note that the 2018-2021 Business Plan included – among other things – the ambition to excel in asset quality in which the effective management of non-performing loans is one of the first priorities. In this regard, the extraordinary de-risking already planned at the end of 2020, aimed at reducing the Group's non-performing loans, was completed during the year. Other portfolios and single names classified as bad loans or unlikely-to-pay positions held for disposal were also identified in 2021 for a total gross book value of 4.5 billion euro, which have already been classified as assets held for sale in the 2021 financial statements. A target was also set for 2022 of further sales of non-performing loans for a gross book value of 4.8 billion euro within two portfolios totalling 6.8 billion euro. These portfolios were recognised on the basis of IFRS 9, factoring in a probabilistic scenario of sale at market prices, considering the above-mentioned sale target of 4.8 billion euro in terms of GBV.
The main contents of these strategies and the results for the year are described in the "2018-2021 Business Plan" section of the Report on operations.

1.1. Impacts from the COVID-19 pandemic

Since the beginning of the pandemic all the Bank's functions have been involved in an extensive and complex set of actions aimed at supporting the various types of Group customers. This was provided through both the offer of government support related initiatives and through initiatives implemented autonomously by the Group.
The pandemic caused a significant threat to the resilience of the companies in the Group's loan portfolio. On the other hand, a series of unprecedented government measures were implemented to support the economy, which must be considered in assessing risk. The speed of change in the economic and social context has increased the level of uncertainty of economic forecasts used as the basis for the estimates of risk appetite. This phase thus requires a greater capacity to adapt and attention to the various challenges laid down by the current credit risk assessment models. As a result, in line with the approach adopted in 2020 after the beginning of the pandemic, it was decided to calibrate the risk appetite, to avoid pro-cyclical conduct while supporting the economy, maintaining a solid financial and equity position.
At the beginning of February, the Board of Directors approved the update of the Credit Risk Appetite Framework, within the overall Risk Appetite Framework, which, in line with the approach adopted in 2020, included the forward-looking information needed to reflect the specific impacts of the COVID-19 crisis within the risk and resilience factors on the Corporate Domestic, Large Corporate (Italy component), Corporate Real Estate and International Corporate scope and a vulnerability indicator for the Corporate Domestic and Corporate Real Estate scope. The vulnerability indicator, introduced in 2020, is based on the company's liquidity profile and its resulting ability to service existing debt and contracted debt in the face of the COVID-19 emergency. The assessment of debt sustainability is measured against the post-pandemic return to normality by using the pre-Covid EBITDA of the companies as a benchmark. The methodological decision to consider a post-crisis time horizon was due to the need to sterilise the transitional effects of the crisis, such as the exceptional institutional measures (e.g. moratoria, grace period for new secured transactions) and the volatility of net working capital, as well as to assess the medium/long-term sustainability in order to reduce the pro-cyclical effects. This indicator can therefore contribute to providing an initial – though partial – response to the expectation of reducing to the minimum any cliff-edge effects upon expiry of the moratoria.
For the Retail SME segment, at the time of the adoption of the new rating model, the choice was made to continue applying the resilience factor on the economic outlooks, implemented at micro-sector level.
The 2021 Risk Appetite Framework also included the introduction of an early warning threshold on the sectors most affected by the pandemic.
With regard to the methodologies and processes developed within the Chief Risk Officer Area, the Internal Validation and Controls Head Office Department refined the machine learning model for the Corporate Performing positions – developed in 2020 – aimed at measuring the risk in terms of probability of being classified in higher risk classes in the next six months. The model was made more responsive and capable of capturing signs of crisis/recovery specific to the COVID period. During the year, again with the aid of machine learning techniques, it developed similar models dedicated to the segments in scope, with the main objective of using innovative instruments to support the Level 2 controls on credit (single name), specifically with regard to the selection of the positions to be controlled.

In line with the roll-out plan updated by the Intesa Sanpaolo Group and adopted following the measures set out by the Supervisory Authorities as a result of the emergency COVID-19 crisis, the work continued on the re-estimation, updating and resolution of the remediation plans for the internal credit risk models. Specifically, in the first half of 2021, model change applications were submitted for all models related to all risk parameters (PD, LGD and EAD) of the Corporate and Retail regulatory segments. For these models, the inspections by the Regulator were conducted and completed, in offline mode, and the validation process has begun. During the fourth quarter of 2021, and in line with the above-mentioned roll-out plan, pre-application requests were sent for the Leasing/Factoring and Structured Finance LGD/EAD models, which will be completed, as envisaged by the ECB process, with the sending of the document packages (applications) during the first quarter of 2022. Also during the fourth quarter of 2021, ex-ante notifications were sent on the new Retail SME and Institutions models, authorised in the first half of the year and used for reporting purposes since June 2021, resulting from the usual time series updating and the recalibration to the new definition of default (already used in the bank processes since November 2019).

With regard to the determination of the Expected Credit Loss (ECL), as further detailed in Paragraph 2.3 "Methods for measuring expected losses" of this Section, up to the third quarter of the year the Group decided, on a prudent basis, to maintain the macroeconomic scenario used for the financial statements as at 31 December 2020, as described in the previous disclosures, without any changes. For the financial statements as at 31 December 2021, as further detailed in the above-mentioned Paragraph, the Group has decided to return to using the macroeconomic scenarios produced internally by the Research Department as the inputs for the ECL models, after having verified that they are substantially consistent with the scenarios published by the ECB and Bank of Italy. This choice enables substantial uniformity of the scenario used for the measurement of expected losses, adopted in the valuation and forecasting processes, including the scenario underlying the new Business Plan being launched in 2022. With the consolidation of the recovery scenario observed in 2021 and on the basis of economic growth forecasts that are expected to remain strong over the next three years, despite some unfavourable circumstances in the short term, as also confirmed by the projections released in December 2021 by the banking supervisors (ECB and Bank of Italy), it was considered appropriate to also use the new scenario in the credit assessments. The sharp increase in coronavirus (COVID-19) infection rates in several Eurozone countries has led to new restrictions and greater uncertainty about the duration of the pandemic, increased by the arrival of the Omicron variant, but containment measures and vaccination campaigns have so far created the conditions for a more manageable pandemic without lockdowns. Consequently, for the 2021 financial statements, the adoption of the updated scenario takes into account the most recent ex-post information, while also adopting the updated forecasts for the period 2022-2024.
At the same time as returning to the use of scenarios (baseline, best-case and worst-case) produced internally, the Group decided, as described in more detail in Paragraph 2.3 above, to confirm and refine the management overlays adopted for the 2020 financial statements to incorporate the impacts from the continuation of the moratorium initiatives and from the government guarantees into the satellite models. Lastly, the extraordinary triggers for sliding into Stage 2 have been revised, refining their scope of application compared to 2020 to capture additional vulnerabilities in credit exposures subject to payment moratoria and applying greater caution in the assessment of exposures with higher risk.
The merger of UBI Banca into the Parent Company was also completed during the year, bringing the acquired portfolios fully into line with Intesa Sanpaolo's measurement methods for the calculation of the Expected Credit Loss and the related management overlays.
Actions in support of customers continued, in line with the initiatives implemented since the start of the pandemic, through:
a) extensions of the legislative moratoria decided by the Government in the second quarter (May 2021, the so-called "Sostegni" Law Decree); in this regard, the Bank has adapted its processes to the different approach introduced by the "Sostegni" Law Decree with respect to previous legislative measures, i.e. the introduction of the requirement for an express payment extension application by the customer;
b) proactive action by the Group based on in-depth diagnosis by the relationship managers (action plan).

With specific regard to the moratoria (see also Part A – Section 5 – Other Aspects – Risks, Uncertainties and Impacts of the COVID-19 Pandemic for details of the classification of exposures under moratoria) the following is noted:
- *corporate legislative moratoria*: Budget Act no. 178 of 30 December 2020 provided that, unless waived by the customer, the maturity dates already extended from 31 January 2021 to 31 March 2021 would be extended further "without formalities" to 30 June 2021. The Intesa Sanpaolo Group complied with this legislative provision through a centralised action which extended all credit maturities relating to the exposures meeting the legal requirements to 30 June 2021.
  Legislative Decree no. 73 (the so-called "Sostegni bis" Decree) adopted on 25 May 2021 further extended the measures already in place until 31 December 2021 with the following restrictions concerning the moratorium:
  - it is limited only to the principal amount, where applicable;
  - it is applicable only to companies already in receipt of the benefits under Article 56 of Law Decree no. 18 of 17 March 2020;
  - it is only granted on the customer's express request.

  In the third quarter, the Intesa Sanpaolo Group carried out the necessary actions to complete all the requests received within the legally established deadline.
- *moratoria under Italian Banking Association / industry sector agreements or the Bank's own initiative*: the Intesa Sanpaolo Group has provided support to its customers since the beginning of the COVID-19 emergency. More specifically, up to the first quarter of 2021, the support/moratoria initiatives continued for customers resident or operating throughout Italy not already covered by the legislative suspension initiatives, in line with the EBA Guidelines (with particular regard to the 9-month cap on suspension relating to the exemption from classification as forborne, introduced in the amendment of 2 December 2020) and the related Italian Banking Association agreements. For the moratoria that do not satisfy the above-mentioned 9-month cap requirement, or that do not fall within the framework established by the EBA Guidelines on "general payment moratoria", the Group has adopted an approach that involves the application of ordinary credit processes with a case-by-case assessment of both the classification as forborne and classification as unlikely to pay. Since 1 April 2021 (the final phase-out date of the EBA Guidelines on general payment moratoria), all moratoria that do not fall within the scope of the legislative initiatives have followed the ordinary lending processes.

In addition, the other support actions include:

- *Loans with the Central Guarantee Fund guarantee*: with regard to the loans for an amount up to 30 thousand euro to SMEs whose business activity has been harmed by the COVID-19 emergency, which are eligible for the guarantee from the Central Guarantee Fund for SMEs with 100% cover both through direct guarantee and reinsurance – pursuant to Conversion Law no. 40 of 5 June 2020 under Article 13, paragraph 1, letter m, of the "Liquidità" Law Decree no. 23 of 8 April 2020 – in the first half the Intesa Sanpaolo Group made the specific updates required by the 2021 Budget Act. In particular, the maximum repayment period has been extended from the previous 10 years to 15 years, both for new and existing loans. For these types of loans granted by 30 June 2021, the full guarantee (100%) has been confirmed and has remained unchanged even if the loan duration is rescheduled within the maximum permitted time limit.
  The "Sostegni bis" Decree extended access to loans up to 30 thousand euro to the end of 2021 for companies that had not yet taken advantage of this option, with the following characteristics:
  - *for loans up to 30 thousand euro*: the reduction of the percentage coverage from 100% to 90% for loans taken out after 30 June 2021;
  - *for loans over 30 thousand euro:* extension of maturity from 6 to 8 years (both for existing loans and new disbursements) and, for new transactions after 30 June 2021, reduction of the percentage cover from 90% to 80%.
- *Loans with SACE guarantees:* in continuation from 2020, the support to enterprises through loans with SACE guarantees continued, enabling them to maintain the continuity of their economic activities.
- *Refinancing*: on the basis of the provisions of the 178/2020 Budget Act in terms of the granting of guarantees from the Guarantee Fund for SMEs and the SACE Italy Guarantee, the Intesa Sanpaolo Group launched an initiative, aimed at supporting businesses in the current difficult environment, to make the debt servicing for the businesses compatible and affordable with respect to the current and prospective cash flows generated by the counterparties, where conditions allowed.

With specific reference to credit portfolio management, in addition to the standard early warning indicators and proactive credit management processes, a further quantitative assessment layer was introduced, which combines sector-based forecasts with additional risk indicators. Specifically, government and bank financial support measures in 2020 and 2021 safeguarded many companies that faced a liquidity shortfall due to the COVID-19 situation. Otherwise, there would have been a worsening of the risk, which would have been reflected in a deterioration of the customers' ratings and an increase in the default rate. In this context, at the beginning of 2021, with a view to anticipating potential financial issues related to the expiry of the government support measures, the Chief Risk Officer Area conducted specific assessments to identify companies/sectors that continue to experience operational difficulties in terms of cash flow generation, despite being financially supported by those measures. The methodology was subsequently further developed, strengthened, supplemented and reported to the corporate bodies in line with the accompanying development of the Early Warning models, which was completed in December 2021.

The Group's proactive actions included the following initiatives:

- Action Plan: the Group has started a diagnosis on the moratoria portfolio for priority clusters identified on a risk basis (rating class, guaranteed quota, exposure amount, etc.), both for Corporates and Retail Individuals. Through a single name analysis of the positions, the diagnosis has produced a "traffic light" clustering of the portfolio and it identified the perimeter that may need intervention to support the regular resumption of payments when the moratoria expire. The initiative has so far involved 96% of the portfolio of active moratoria. The result of the initiative shows that around 90.62%, in terms of exposures, have been clustered with a Green light (affordable resumption of payments without intervention or with refinancing), 7.41% with a Yellow light (need for moratoria extension or renegotiation), 1.43% with an Orange light (resumption of payments is currently not affordable, with position to be reviewed at a later date) and only 0.54% with a Red light, which denotes a possible increase in credit risk with reclassification as non-performing loans. These management actions were monitored during the second half of the year, with requests for completion timing for the actions still in progress.
- Re-rating: this initiative aimed at updating the customer risk assessment in view of the effects of the economic situation also continued and concerned 92% of the positions and over 99% of the positions under moratoria. The results show a significant correlation between rating updating and deterioration and the outlook by sector of the economy, with a higher incidence of updated and deteriorated ratings among counterparties belonging to sectors with more negative prospects.

The flows of new non-performing loans in 2021 remained very low and below the levels observed in 2019, the last year before the pandemic. Specifically, also on positions that benefited from support measures such as moratoria, only around 2.7% of the positions with expired moratoria and past-due payment resumptions were included among the non-performing positions, for both retail and corporate customers.
The functions of the Chief Lending Officer Area continue to constantly monitor the Action Plan activities and the observed risk profiles, with periodic reporting to the Risks Committee and Management Control Committee of Intesa Sanpaolo.

As part of the initiatives in support of customers affected by the pandemic crisis, the Parent Company continued its direction and coordination of the Subsidiaries in 2021, aimed at the adoption of the same guidelines, particularly for countries where the legislative moratoria schemes continued in 2021 (Hungary).
With regard to **counterparty risk**, the pandemic crisis entailed an initial increase in exposures, mainly due to the decline in Euro area interest rates and the general, significant increase in the volatility of the main risk factors. However, no critical issues were encountered in the margining process with market counterparties, despite the sharp increase in collateral calls, by both number and volume, during the weeks of greatest stress on the markets. Margin processes with central counterparties also did not generate any operating issues. The situation on the financial markets has gradually stabilised. The level of exposure to customers gradually increased during 2020, followed by a decrease in 2021, driven by interest rate movements.

Lastly, with reference to credit risk issues, note that the Group publishes the disclosure set out in the "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis", published by the EBA (EBA/GL/2020/07) in the "Pillar 3" public disclosure.

2. CREDIT RISK MANAGEMENT POLICIES

2.1. Organisation

Within the Intesa Sanpaolo Group, a fundamental role in managing and controlling credit risk is played by the corporate bodies, which, to the extent of their respective competences, ensure adequate coverage of credit risk by setting strategic guidelines and risk management policies, verifying that they remain constantly efficient and effective and assigning tasks and responsibilities to the company functions and units involved in the processes.
The coverage and governance of credit ensured by the corporate bodies is reflected in the current organisational structure, which identifies areas of central responsibility attributable to:

- Chief Lending Officer Governance Area;
- Chief Risk Officer Governance Area;
- Chief Financial Officer Governance Area.

They ensure that risk control activities are managed and implemented, with an appropriate level of segregation, in addition to the establishment of the supporting processes and applications.

The Chief Lending Officer Governance Area, with the aid of its structures (BdT Underwriting Head Office Department, CIB Underwriting Head Office Department, ISB Credit Head Office Department, Credit Governance Head Office Department, Credit Value Preservation Head Office Department and NPE Head Office Department):

- makes material credit decisions, directly or submitting them to the relevant bodies, in relation to the assumption and management of the Group's credit risks, authorising them directly if falling within its prerogatives, including by way of advisory opinions;
- ensures the correct classification and valuation for financial reporting purposes of positions under its responsibility that are classified as non-performing loans;
- ensures, for its area of responsibility, the proactive management of credit and guarantees the management and the monitoring of the Group's non-performing and bad loans kept within the Group's internal management;
- designs and manages transactions for the sale of individual NPE positions or portfolios, credit exposures and other assets within scope, with the collaboration of other competent functions;
- performs monitoring and control on outsourced activities, including the monitoring of the performance KPIs of outsourcers, directly making decisions, or submitting them to the Competent Bodies, regarding proposals exceeding the powers delegated to the Outsourcers;
- contributes to the process of formulating the proposal of the Credit Strategies in the analysis of the impacts on the granting of loans and to their definition in relation to the relevant credit management variables, without prejudice to the Chief Financial Officer Governance Area's ultimate responsibility for their finalisation;
- coordinates the implementation of Credit Management Guidance by the relevant Group business units, also in the various corporate contexts;
- analyses the evolution of the cost of credit within the Group, also taking into account the application of the aforesaid Credit Strategies;
- assigns and validates the ratings to the relevant positions, also providing support in the definition of the rating assignment processes and tools;
- defines the relevant regulations on credit matters, the requirements for the development of credit tools and contributes to the formulation of the proposals for the assignment of credit granting and management powers, without prejudice to the Chief Risk Officer Governance Area's ultimate responsibility for their finalisation;
- promotes initiatives aimed at disseminating and developing a credit culture;
- ensures, consistently with the guidelines of the Chief Risk Officer Governance Area and in compliance with the Credit Management Guidance, the first level systematic supervision of the relevant loan portfolio, identifying phenomena referring to specific credit aggregates characterised by high levels of anomalies for which to activate the appropriate risk mitigation measures.

The Chief Risk Officer Governance Area is responsible for adapting the Risk Appetite Framework for the management of credit risk, in accordance with company strategies and objectives, as well as for measuring and controlling the Group's risk exposures. Specifically, the Chief Risk Officer Governance Area:

- establishes the metrics for the measurement of credit risk - also with regard to the collective measurement of performing loans and the measurement of non-performing loans on a statistical basis;
- provides risk-adjusted pricing models and guidance on Expected Loss, Economic Capital (ECAP) and RWAs;
- monitors the absorption of capital relating to credit risk, supporting the Chief Financial Officer Governance Area in the active management of capital;
- makes proposals for the assignment of the Credit Granting and Management Powers;
- validates internal risk measurement systems;
- oversees model risk;
- performs level 2 controls for credit risk.

The activities are performed directly by the Chief Risk Officer Governance Area for both the Parent Company and the main subsidiaries, according to a service contract.

With regard to the credit management policies, the Chief Financial Officer Governance Area:

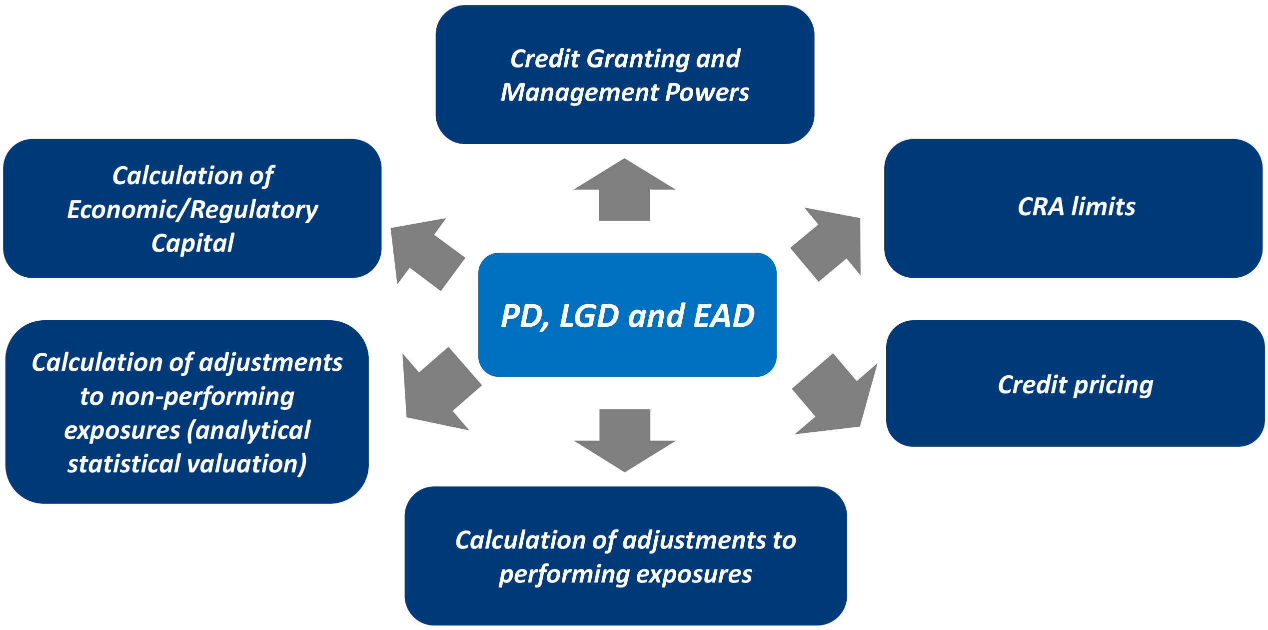
- assists the Corporate Bodies in defining, in accordance with the Group corporate strategies and objectives, the guidelines and policies on administration and tax, planning and management control, treasury and finance, studies and research, active management of the loan portfolio, relations with investors and rating agencies, and social and environmental responsibility;
- oversees Credit Portfolio Management at Group level, supporting the Divisions in the active management of credit risk, with the aim of improving the risk-return profile of the loan portfolio in order to create value for shareholders, through targeted credit strategies and participation in market operations on performing and non-performing loan portfolios;
- oversees and coordinates the "Group NPL Plan Control Room", a managerial body with consulting, monitoring and guidance functions, established to ensure that the strategic objectives of the Group's NPL Plan, approved annually by the Parent Company's Board of Directors, are achieved while in compliance with the performance targets, solidity of the capital ratios and creation of value for the Group.

The Chief IT, Digital and Innovation Officer establishes the model and oversees the Group's Data Governance and Data Quality system, ensuring its dissemination and implementation and coordinating the activities of the parties involved.

Lastly, as is the case for all the risk areas and above all for credit risk, the Chief Audit Officer performs internal audits aimed at identifying breaches of the procedures and regulations and periodically assessing the completeness, adequacy, functioning (in terms of efficiency and effectiveness) and reliability of the internal control system and the ICT system (ICT audit), at preset intervals according to the nature and extent of the risks.

2.2. Management, measurement and control systems

Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentration of exposures, limit potential losses in adverse scenarios, and maintain credit quality in line with the objectives of capital and financial stability.
Expected Loss and Risk Weighted Assets are fundamental elements for the management, measurement and control of credit risk. These measures incorporate the effects of the exposure size (Exposure at Default - EAD), the relative riskiness of the customer (Probability of Default - PD), the loss estimate where insolvency conditions exist - taking into account the guarantees that mitigate the assumption of risk related to the loan (Loss Given Default - LGD) - and the duration of the exposure (maturity), as detailed in Paragraph 2.3.
The components that contribute to the determination of the Risk Weighted Assets are the key elements for the determination of the levels of the Credit Granting Powers, the limits of the Credit Risk Appetite (CRA), the credit pricing, the calculation of the adjustments on performing exposures and the analytical-statistical adjustments on non-performing exposures, as well as the calculation of the economic and regulatory capital.



The Credit Risk Appetite is aimed at optimising the risk/return profile of the assets. The "Rules on Credit Risk Appetite" define the methods for applying the CRA and the methods for calculating the CRA colour class, with associated exposure limits, in order to pursue a growth in lending consistent with the risk appetite defined for the Group. In order to ensure homogeneous treatment of customers, guarantee current operations and consistent oversight of Group risks, the Credit Risk Appetite (CRA) framework of Intesa Sanpaolo was applied until the merger also to the scope of UBI Banca, as well as IW Bank, defining specific operational limits as well as the governance for managing breaches of the limits in line with that established at Intesa Sanpaolo.
The objective of the calculation of the pricing of transactions is to define the suitability of the economic conditions based on the value generation with respect to the expressed riskiness and all the components that contribute to the calculation of the value, also including the costs allocated to the structures.
The capital at risk is defined as the maximum "unexpected" loss that the Group may incur with particular confidence levels. The calculation is made with reference to the current status of the portfolio and on a dynamic basis, by determining the projected level, based on both the forecast macroeconomic scenario and on stress scenarios. Risk capital is a fundamental element in the assessment of the Group's capital adequacy and is calculated within the ICAAP process both with regard to the regulatory parameters and from a management perspective.
The levels of Powers set in terms of RWA delimit the decision-making power in the granting phase, specifying the authorised professional profiles and the decision-making procedures for the loans for the individual counterparties. In particular, where the granting of loans by the Group's subsidiaries exceeds certain thresholds, a request for a "Compliance Opinion" is made to the competent bodies of the Parent Company.
The credit granting phase is also regulated by metrics that are complementary to the RWAs, which define coordination mechanisms and support tools for the ongoing exercise of guidance, coordination and control responsibilities, in implementation of the corporate governance provisions. In particular, the company rules include the Granting Rules, which specify the methods for taking on credit risk with customers, and the Rules on Credit Strategies, which are designed to direct the development and composition of the loan portfolio towards a risk/return profile that is recognised as optimal over the medium/long-term.

The credit risk management processes also envisage the periodic review of the credit positions by the relevant centralised or decentralised structures and the assessment of customers not only at origination, but also on a continuous basis, by means of a periodic monitoring process that interacts with credit management and control processes and procedures to ensure timely assessment of any signs of impairment, with an impact on the level of risk of the exposures. An Early Warning System is in place for the Corporate, Retail SME, Retail and Institutions portfolios, with adaptations introduced alongside the updates to the internal rating models. The system used was developed on the basis of the indicators identified in the Asset Quality Review and consists of a statistical component and a qualitative component, plus manual triggers by event. The indicators are updated on a daily basis and, when they confirm a potential anomaly in the management of the relationship, the related positions are detected and reported in specific management processes. As mentioned above, further developments were made to the EWS engine in the second half of 2021, for a forthcoming update. More generally, the Group continued to develop its own management models to support the credit granting, monitoring and management processes (e.g. affordability and forecasting).

The valuation of the adjustments to the performing and non-performing exposures[74] is based on methods consistent with IFRS 9, described in detail in Part A - Section "A. 2 - Main financial statement captions" and in particular in the paragraph "Impairment of assets".
Country risk is an additional component of an individual borrower's insolvency risk, measured by credit risk control systems. This component is linked to losses potentially resulting from international lending operations caused by events in a country that are partly or entirely within the control of the government concerned, but not that of the individual residents of the country in question. Country risk therefore takes the form of both transfer risk for non-sovereign counterparties, due to the freezing of international payments, and sovereign risk, which is measured through an assessment of the sovereign states' creditworthiness. This definition includes all forms of cross-border lending to entities residing in a given country, whether they are the government, a bank, a private enterprise or an individual.
The country risk component is used in the granting of credit to non-resident entities in order to obtain a preliminary evaluation of the absorption of country risk limits set on an ex-ante basis. These limits, expressed in terms of economic capital, identify the maximum acceptable risk for the Group, set on an annual basis in the Group Risk Appetite Framework.

Counterparty risk is a particular kind of credit risk associated with derivatives and SFTs (Securities Financing Transactions, namely repurchase agreements and securities lending transactions), that refers to the possibility that a counterparty may default before the contract expires. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, in the case of default of the counterparty, the solvent party would be forced to replace the position on the market, thereby suffering a loss.
With regard to counterparty risk, the Banking Group has an internal model for measuring this risk both for regulatory (only for the Parent Company) and managerial purposes.
Potential Future Exposure (mean effective PFE 95%) has been adopted by the entire Banking Group for the measurement of the utilisation rate of credit limits for derivatives and SFTs exposures. The Market, Financial and C&IB Risks Coordination Area produces daily risk measurement estimates for counterparty risk, for the measurement of the utilisation rate of credit lines for derivatives and SFTs for the Parent Company and Fideuram. The other Banks of the Group also use an internal model measurement approach, in simplified form, through internally estimated add-ons.
In addition, the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above:

[74] The analytical statistical measurement of the non-performing exposures applies to non-performing past-due due exposures and bad loan and unlikely-to-pay positions equal to or less than 2 million euro for the Parent Company. For Group companies, the threshold value for analytical-statistical measurement is set by the competent bodies of the individual companies, in coordination with the structures of Intesa Sanpaolo, at a level that is not, in any event, higher than that set by the Parent Company.

- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivatives and SFTs with margining agreements (CSA, GMRA and similar);
- periodic reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk;
- definition and periodic calculation of back-testing analyses to monitor the predictive performance over time of the model with respect to the movements of the risk factors underlying the transactions in the portfolio.

The concentration risk arises from the exposure to counterparties, groups of related counterparties and counterparties in the same business segment or that engage in the same business or operate in the same geographical region. In the annual update of the Risk Appetite Framework, such counterparties are subject to stress tests aimed at identifying and assessing threats for the Group and the most appropriate mitigating actions:
- aimed at defining exposure limits for specific geographical areas and sets of counterparties (e.g.: the top 20);
- aimed at ex ante limitation of exposures with significant concentration effects, in particular with reference to "large exposures" and to credit lines subject to country risk;
- aimed at ex-post correction of the risk profile, through the secondary loan market, through specific judgement metrics based on the maximisation of overall portfolio value.

Through specific control, guidance and coordination activities, the Internal Validation and Controls Head Office Department within the Chief Risk Officer Governance Area oversees the credit granting and management processes for the performing loans portfolio at the Group level, and through controls on individual positions, assesses that loans are properly classified. It also assesses the compliance of the internal risk measurement and management systems over time as regards determination of the capital requirements with the regulatory provisions, company needs and changes in the relative market.
The Group's lending activity is focused on Italian customers (over 80% of the total) and is primarily aimed at households and small and medium enterprises.
The exchange of basic information flows between different Group entities is assured by the Group's Central Credit Register (exposure monitoring and control system) and by the "Posizione Complessiva di Rischio" (global risk position), which highlight and analyse credit risks for each counterparty/economic group both towards the Group as a whole and towards individual Group companies.
From the September 2018 monthly report – following the preparation of the input and generation architecture for the Anacredit reporting, aimed at supporting the "collection of granular credit and credit risk data" as defined by EU Regulation 2016/867 of 18 May 2016 – a new reporting system has been in place in compliance with the regulatory provisions established by the ECB and implemented by the related Central National Banks.

Methods of inclusion of climate and environmental risk for credit risk management
In the taxonomy of risks the Bank is exposed to, climate change risk is an emerging risk category that could have a significant and cross-cutting impact, in the medium to long-term, on traditional risks such as credit, market and liquidity, operational and reputational risk.
With this in mind, starting in 2020 Intesa Sanpaolo launched a number of project initiatives aimed at identifying, measuring, controlling and managing this new category of risks and their impact on the Bank's various areas of operations.
With regard to credit risk, it should first be noted that the effects of climate risk are mainly prospective and consequently there is no strong empirical evidence in the quantitative time series used for the rating models and the LGD and EAD estimates.
That said, the qualitative component of the Corporate models, currently validated and used by the Group as at 31 December 2021, for both regulatory and management purposes, considers various aspects and elements related to ESG and Climate, by means of specific questions answered by the analysts when assigning the rating. These include aspects such as the presence and quality of environmental certificates held by the company, the presence of legal disputes related to environmental issues (pollution resulting from production activities), and, more generally, human rights and the stability of corporate governance.
In the new Corporate models, for which the model change application was submitted during the first half of 2021 and is currently awaiting the completion of the validation process by the Supervisor, the above-mentioned factors have been maintained and specific "ESG" and "Catastrophic" modules have been developed, to increase the depth of analysis in these areas of investigation, which, together with the more traditional modules, contribute to defining the rating class as an output of the model.
To take account of the counterparty's exposure to physical risks arising from catastrophic events (e.g. damage to production facilities and/or warehouses), a specific new module has been developed within the new Corporate model (companies or groups with a size of less than 500 million euro), which uses a top-down approach (the data at individual level is currently very limited, especially for smaller companies) based on historical and public information on catastrophic events observed at geographical area level. More specifically, for domestic counterparties, this module provides an assessment of the risk of damage related to natural disasters (floods, fires, earthquakes) to which a company is potentially exposed depending on the region (and/or municipality) where it operates and/or mainly conducts its business.
For the Large Corporate model (companies or groups with a size of more than 500 million euro), on the other hand, a specific ESG module has been included, which uses a bottom-up approach, because the level of availability of information on ESG elements (risk drivers, approaches, corporate strategies) at individual debtor level is much greater for larger companies (generally more structured/organised, often listed companies). The proposed module statistically integrates three sub-scores, each of which considers specific Environmental (E), Social (S) and Governance (G) drivers (identified as being significant in relation to the credit default risk). Within the new model framework, it is a "stand-alone" component of the broader, more general qualitative section.

With regard to the measurement of the concentration of climate risk in the corporate and SME corporate loan portfolio, monitoring is currently conducted based on management data.
To this end, a top-down ESG sectoral assessment has been developed internally, which assigns qualitative scores at granular level (i.e. “sub-sector”) to represent the component of the loan portfolio potentially most exposed to climate and ESG risks.
The assessment criteria underlying the assignment of these scores have been defined using numerous sources adopted within the financial system (publicly available analyses, research papers and findings from leading international working groups) that describe the financial materiality, at qualitative level, of the climate and ESG risk drivers for the main economic sectors.
Based on this approach, several sub-sectors have been classified as having high transition and ESG risk, and as at 31 December 2021 the portion of the Corporate and Corporate SME loan portfolio that had received this classification was still less than 20% of the total portfolio within scope.

2.3. Methods for measuring expected losses

The expected loss is the product of exposure at default, probability of default and Loss Given Default.
In Intesa Sanpaolo, probability of default is measured by means of different rating models according to borrower segment (Corporate, Retail SME, Retail, Sovereigns, Public Sector Entities and Banks). These models make it possible to summarise the counterparty’s credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle.
A number of rating models are used for the Corporate segment, which use all available information sources and incorporate the opinions of credit analysts and relationship managers. In particular:

- models differentiated according to the market (domestic or international) and size bracket of the company are applied to most businesses;
- specific models are in use for specialised lending, one for real-estate initiatives, one for project-finance transactions and one for Leveraged Buy-Out/acquisition-finance and asset-finance transactions.

The Corporate model is also used to calculate the resulting RWAs for the Equity portfolio of the Banking Book.
The models applied to the Retail portfolio are as follows:

- for the Retail SME segment, a highly-decentralised rating model by counterparty is used, in which the quantitative-objective elements are supplemented by qualitative subjective elements;
- for the Retail segment, a counterparty rating model consisting of the Retail Mortgages segment and the Other Retail segment has been in use since September 2018.

With regard to the Institutions portfolio:
- the models for banks (banks in mature economies and banks in emerging countries) are composed of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, and a country rating component that, based on the bank/country connection, assesses any negative effect of the country on the counterparty credit risk or, vice versa, the support capacity in the event of difficulties of the bank being assessed;
- the models used for Municipalities and Provinces are default models, whereas shadow rating models based on agency ratings are used for the Regions. An approach to extend the rating (with the application of a downgrading) for the regulatory Entity (e.g.: Region) has been adopted for local healthcare authorities and other sector entities. For the Sovereign portfolio, the structure of the rating model includes a quantitative module that takes into account the structural rating assigned by the main international agencies, the implicit risk in the market prices of sovereign debt, the macroeconomic assessment estimated with an econometric model of regression, and a qualitative opinion component, which supplements the qualitative opinion with elements drawn from the broader scope of publicly available information concerning the political and economic structure of the individual sovereign countries. The Sovereign rating model is used solely for management purposes.

For the international subsidiary banks of the Group, PD models are used, which may be:
- developed by the international subsidiary banks in order to capture the specific features of the risk of the local counterparties;
- extended by the Parent Company;
- borrowed from the Parent Company and adapted to local situations.

Some of these models are used for reporting purposes and others only for management purposes, as set out in the table below.

The Loss Given Default (LGD) models are based on the concept of "Economic LGD", namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly attributable to the exposure as well as the indirect management costs incurred by the Group, and consists, in brief, of the following elements:
- estimate of a Bad Loan LGD Model: starting from the LGD observed on the portfolio, namely "Workout LGD", determined on the basis of the recoveries and costs, a regression econometric model of the LGD is estimated on variables considered to be significant for the determination of the loss associated to the Default event;
- application of the Danger Rate, a multiplying correction factor, used to recalibrate the Bad Loan LGD with the information available on the other default statuses, in order to calculate an LGD representative of all the possible default statuses and their evolution;
- application of an additional correction factor, known as "Final Settlement Component": this component is used as an add-on to the estimate recalibrated for the Danger Rate in order to consider the loss rates associated with positions not evolved to the Bad Loan status (Unlikely to pay or Past Due positions).

LGD is determined according to differentiated models, specialised by operating segment (Corporate, Retail SME, Retail, Factoring, Leasing, Public Entities and Banks). As in the case of the PD, the models that have been adopted for the LGD of the International Subsidiary Banks of the Group were developed by the banks themselves, extended by the Parent Company, using local parameters where necessary or changed by the Parent Company, with adaptations to each international subsidiary bank.

For the banks, the LGD calculation model partly diverges from the models developed for the other segments as the estimation model used is based on the market price of debt instruments observed 30 days after the official date of default and relating to a sample of defaulted banks from all over the world, acquired from an external provider. The model is completed by an econometric estimate aimed at determining the most significant drivers, in accordance with the practice in use for the other models, and a recalibration of the observed LGD levels on the bank's internal defaults.

Sovereign LGD is estimated by analysing historical recovery rates on sovereign defaults, split into five categories according to income levels and other specific characteristics the individual countries.

The LGD Sovereign model is used solely for management purposes.

The calculation of the Exposure at Default (EAD) uses differentiated models, specialised by operating segment (Corporate, Retail SME and Retail). Specifically, the methodology is based on data from the 12 months prior to the default event and differs according to whether or not there is a margin available at the observation date. In any case, corrective factors are applied in compliance with the regulatory requirements and in order to introduce a margin of conservatism on the estimates. Regulatory parameters are currently used for the low default segments of the Banks and Public Entities and for the Leasing and Factoring products of the Corporate Portfolio.

Portfolio	PD - Model Type	LGD - Model Type	EAD - Model Type	Status
Sovereign	Shadow model based on agency rating	Model based on recovery rates estimated by rating agencies	Regulatory parameters	Used for management purposes only; Standardised approach for reporting purposes
Institutions	Default model (Banks) (4)	Market model (Banks)	Regulatory parameters (Banks)	AIRB authorised since June 2017
	Default model (Municipalities and Provinces) Shadow model (Regions) (4)	Workout model (Municipalities, Provinces, Regions)	Regulatory parameters (Municipalities, Provinces, Regions)	AIRB authorised since June 2017
Corporate	Default model (Corporate)	Workout model (Bank products; Leasing and Factoring)	CCF/K factor model (Bank products) Regulatory parameters (Leasing and Factoring)	FIRB authorised since December 2008, AIRB LGD authorised since December 2010, EAD authorised since September 2017 (1)
	Simulation models (Specialised Lending)	Simulation models (Specialised Lending)	Regulatory parameters (Specialised Lending)	AIRB authorised since June 2012
	Expert-Based Model (Non-Banking Fin. Inst.)	Regulatory parameters (Non-Banking Fin. Inst.)	Regulatory parameters (Non-Banking Fin. Inst.)	Used for management purposes only; Standardised approach for reporting purposes
Retail	Default model (Retail)	Workout model (Retail)	CCF/K factor model (Retail)	IRB Retail since September 2018 (2)
	Default model (Retail SME)	Workout model (Retail SME)	CCF/ K factor model (Retail SME)	AIRB authorised since December 2012 (3)

1) ISP authorised for FIRB from December 2008, for LGD AIRB from December 2010 and for EAD from 2017, Banca IMI (2012, merged by incorporation into the Parent company since 2020), ISP Ireland (2010), VUB (2010), Intesa Sanpaolo Bank (2017), and ISP Luxembourg (2017). From 2017, the Corporate model has also been used to calculate the risk on the Banking book equity portfolio with LGD 65%/90%.
2) VUB authorised from June 2012 for PD and LGD of Retail Mortgage models.
3) VUB authorised from June 2014.
4) ISP and Banca IMI (merged by incorporation into the Parent company in 2020) authorised from 2017.

For the Group companies included in the roll out plan, the internal rating models (PD) and the EAD and LGD models are subject to independent validation by the Validation function and a level three control by the Internal Audit Department. At the end of these activities, a report is produced for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also verifies the actual deviation between the ex-ante estimates from the models and the actual ex-post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms the compliance to the regulatory requirements.

The methodology for the estimation of the Expected Credit Loss (ECL), adopted for the determination of the impairment on loans in accordance with IFRS 9, is implemented at individual transaction or securities tranche level, based on the IRB modelling of the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate adjustments are made to ensure compliance with the requirements of the standard. With a view to achieving convergence between the accounting and regulatory rules, while respecting their specific purposes, adjustments have been made to the estimation model for accounting LGD, incorporating the provisions progressively introduced and applied in the prudential IRB model changes.
A detailed description of the methods adopted by the Group is provided in Part A – Section "A.2 – Main financial statement captions", in particular in the paragraph "*Impairment of assets*", to which reference is made, and in relation to the specifics of the current pandemic situation, in the Section "The Intesa Sanpaolo Group's approach to the preparation of the Financial Statements as at 31 December 2021" of the Report on Operations, and in Part A – Section 5 – Other Aspects – Risks, Uncertainties and Impacts of the COVID-19 Pandemic.
More specifically, the measurement of the financial assets reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the "risk" of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the "Most likely scenario+Add-on" approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario ("Most Likely", in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes.

As indicated in the section "Changes due to COVID-19" below, the macroeconomic scenarios were determined by the Bank's Research Department using forecast models, taking into account the forecasts of the main national and international bodies and institutions.

The effectiveness of the IFRS 9 models is also monitored by the Validation function once a year on the risk parameters (staging criteria and PD, LGD and haircut models), both through model performance tests and in terms of model design, data treatment and code review. In addition, regulatory compliance activities are also carried out in the event of methodological updates or updates of their underlying regulatory models, resulting from updates of their life cycle. The results are presented, in the same way as mentioned above, in the annual report on internal models used for managerial purposes.
Lastly, the following took place during the year:

- the merger of UBI Banca was completed, adopting certain temporary treatments that were superseded from the quarterly report as at 30 September 2021 with full harmonisation of the calculation of the Expected Credit Loss with Intesa Sanpaolo's measurement processes;
- the risk parameters for the Banks, Public Entities and Retail SME segments were updated following the corresponding regulatory model approvals.

Changes due to COVID-19

In 2021, as it did for the 2020 financial statements, the Intesa Sanpaolo Group continued to carefully observe the credit dynamics generated by the pandemic, by means of numerous management monitoring actions, which were also reported to the banking supervisor. On one hand, a modest flow of new defaults was observed during the year, also on positions that ceased to benefit from support measures, such as moratoria, and, on the other hand, reasonable prudence was maintained in the valuation of the credit positions, although with a much more favourable outlook than the one at the end of 2020.
As already noted in the introduction to this Section, COVID-19 led the Group to consider a number of specific adjustments to the Group's modelling in relation to the measurement of the significant increase in credit risk (SICR) and the measurement of expected losses for the purpose of determining the Expected Credit Losses (ECL) pursuant to IFRS 9. These adjustments were determined based on the management's judgement in order to better capture the uniqueness of this situation, also considering the continued substantial customer support measures, such as the payment moratoria that remained in place in Italy throughout 2021, albeit with a gradual reduction. The need for managerial adjustments and judgements of the current and future situation with respect to the estimation methods adopted has been the subject of substantial guidance from the Regulators and Standard Setters, which had already expressed their opinions in 2020, setting out a framework that is still applicable, given the absence of any further significant regulatory interventions by the Regulators and Standard Setters in 2021.
The Intesa Sanpaolo Group made these choices in the 2020 Annual Report and they continued to be implemented in 2021, gradually refining them to take account of the evolution of the health and macroeconomic situation – still characterised by uncertainty throughout 2021 – and the greater amount of information available to the Group.

Macroeconomic scenario for forward-looking conditioning

Intesa Sanpaolo's policy envisages the use of the macroeconomic scenario defined and constantly updated by the Research Department for the purpose of forward-looking conditioning.
As noted in the financial statements as at 31 December 2020, starting from June 2020 the Group followed the guidance provided by the ECB and the Bank of Italy and used the forecasts provided by those bank regulators instead of the above-mentioned scenario.
During 2021, all the macroeconomic projections published by the national and international regulators and bodies showed a progressive and significant improvement in the scenario compared to the one used for the 2020 financial statements. During the year, and therefore for the quarterly and half-yearly reports, the Group decided, on a prudent basis, to continue applying the scenario used in the 2020 financial statements, while awaiting the consolidation of these improvements.
At the end of the year, with the confirmation of the improvements in the forecasts for the coming years, less uncertainty in the estimation of the projections and the first final data relating to 2021 that confirmed this trend, the Group decided to return to the use of the scenarios produced internally by the Research Department as inputs to the ECL models. This choice, after having verified the substantial consistency with the scenarios published by the ECB and the Bank of Italy, provides substantial uniformity among the scenarios used in the other valuation/forecasting processes (such as the impairment testing of intangible assets, budget process, etc.) and in particular with the new Business Plan being launched in 2022.
The table below shows the main macroeconomic scenario variables used to determine expected credit losses from a forward-looking perspective, broken down by baseline, best-case and worst-case scenarios. These scenarios were applied in the measurement of loans according to the "Most-Likely scenario + Add-on" model described in this Section and in Part A – Section "A.2 – Main financial statement captions" and in particular in the Section "*Impairment of assets*", where more details are provided.

Intesa Sanpaolo macroeconomic scenarios for calculating the ECL in the 2021 Financial Statements

		Baseline				Mild				Severe			
		2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
Italy	**Average Variation**												
	Real GDP Italy	6.2%	4.3%	2.4%	1.6%	6.3%	4.9%	2.6%	2.1%	6.2%	3.5%	1.5%	1.4%
	CPI Italy	1.8%	1.9%	1.4%	1.7%	1.8%	2.1%	2.0%	2.6%	1.8%	1.7%	0.8%	0.9%
	Residential Property Italy	2.4%	2.5%	0.7%	1.9%	2.6%	4.0%	2.8%	3.6%	2.3%	0.2%	-2.7%	-1.1%
	Average level												
	10Y BTP yield	0.7%	1.5%	2.0%	2.2%	0.7%	1.5%	2.2%	2.5%	0.8%	1.5%	2.1%	2.3%
	BTP-Bund Spread 10Y	1.1%	1.5%	1.6%	1.6%	1.1%	1.5%	1.5%	1.5%	1.1%	1.6%	1.9%	1.9%
	Italian Unemployment	9.4%	9.0%	8.8%	8.6%	9.5%	8.9%	8.7%	8.3%	9.5%	9.2%	9.3%	9.2%
Euro Area	**Average Variation**												
	Equity ESTOXX 50	22.9%	7.2%	0.5%	-0.3%	24.9%	10.8%	5.3%	1.3%	19.9%	0.5%	-4.2%	-1.6%
	Average level												
	Euro/$	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.3%
	EurIRS 10Y	0.1%	0.3%	0.5%	0.6%	0.1%	0.4%	0.8%	1.0%	0.1%	0.3%	0.4%	0.4%
US Area	**Average Variation**												
	Real GDP US	5.6%	4.1%	2.4%	2.0%	5.7%	4.9%	3.1%	2.3%	5.4%	3.4%	2.2%	1.8%
	Average level												
	US Unemployment	5.3%	3.7%	3.5%	3.4%	5.4%	3.6%	3.3%	3.2%	5.4%	4.1%	3.9%	3.8%

For Italy, the baseline scenario forecasts growth of 4.3% in GDP in 2022, following the rebound of 6.2% estimated for 2021. GDP growth remains above potential for 2023 (2.4%) and in 2024 (1.6%), in the assumption that aggregate demand remains supported by the flows connected with the NGEU programme, by an additional reduction in the average propensity to save, by a positive trend in employment and income and by an additional reopening of the sectors impacted by the pandemic.
As the recovery strengthens, fiscal policy should go back to focusing on debt reduction with short-term negative effects on demand. However, these could be mitigated by the launch of the EU recovery plan, which could contribute increasing resources up to 2023. GDP should return to pre-crisis levels in 2022, in advance of the forecasts made one year ago. The longer-term projections remain anchored to a conservative estimate of potential growth, as only a portion of the investments of the National Recovery and Resilience Plan may have positive long-term effects and the progress in structural reforms remains slow and uncertain.
The unemployment rate is thought to have reached its peak in 2021, and the decrease was quicker than expected. Despite the assumptions of recovery in the labour force participation rate, the decrease should continue in the next few years.
In 2021 real estate prices outperformed expectations, at least in the first three quarters of the year, refuting the forecasts of drops formulated one year ago. The year-on-year change in the ISTAT index in the third quarter came to 4.2%, resulting from another exceptionally robust quarterly change (1.2%) following the sharp increases previously seen in the first and second quarters (1.1% and 1.7%, respectively). A similar sequence in quarterly changes has not been seen in the last ten years. The annual average for 2021 is now estimated as growing by 2.4%. The improved performance partly reflects the robust economic recovery, but probably the most important role was played by the partial use of excess savings accumulated during the initial phase of the pandemic crisis, in a scenario of improvement in the climate of confidence and accommodative financial conditions. As these factors will continue to produce effects in the short and medium-term, the reference scenario forecasts the positive continuation of this trend. However, at the same time, it is deemed that the pace of price increases should slow from 2023 to 2024 due to the reduction in monetary stimulus and the increase in interest rates, as well as due to the elimination of the distortion due the reinvestment of excess savings.
Inflation, which was substantially zero in 2020 as a result of the temporary collapse in oil prices during the first wave of the pandemic, rebounded sharply in 2021. In addition to the normalisation of transitional factors, in the second half of 2021, sharp increases in prices of energy commodities (natural gas even more than oil) were fuelled, with strong impacts also on electricity tariffs. The shortage of intermediate goods also contributed to inflation, but more modestly. The reference scenario projects substantially stable annual average inflation at 1.9% in 2022, falling to 1.4% in 2023 and rising again to 1.7% in 2024.
With regard to the Eurozone, estimates for the medium and long-term interest rate curve reflect the closing of the securities purchase programmes and modest expectations of increases in official rates, already priced in by the markets. Despite the restriction placed by the conservative assumptions on official rates, five-year swap rates should return above zero from 2022 onwards, as it happened for ten-year swap rates last year. The interest rate curve gets steeper in the two-year period 2022-23. The decrease in net purchases by the ECB could provide an additional contribution to the increase in interest rates, even if the boost should be lower than that exercised in the opposite direction by the increase in the securities portfolio of the Central Bank.
The decrease in support provided by the Eurosystem and the increase in risk-free rates could also reflect in an expansion of sovereign risk premiums. Nonetheless, this negative factor could be at least partly offset by the reduction in net issues by the Ministry of the Economy and Finance, in a context of improvement in public finances. The approaching end of the government's term of office in Italy, with the uncertainty associated with the evolution of the political scenario, could result in

greater volatility in the BTP-Bund spread. However, the reference scenario incorporates an increase in the spread linked to only fundamental factors (performance of the debt) and monetary policy (rates and net purchases).
In the United States, GDP is expected to grow by 4.1% in 2022, and by 2.4% in 2023, following the rebound in 2021 (5.6%). The combination of strong tax and monetary stimulus and the imbalanced nature of the recovery fuelled a situation of excess demand, which, in turn, triggered widespread upwards pressure on wages and prices, not limited to just the energy sector.
The comparison between the domestic scenario produced by the Research Department and the scenarios published by the European Central Bank and the Bank of Italy shows substantial alignment of the forecasts for 2023 and 2024 for both the Eurozone and Italy. The GDP for the Italian economy in 2022 shows a deviation between the domestic macroeconomic scenario and the Bank of Italy scenario, as updated on 21 January, which is slightly larger with respect to the previous published forecast[75]. This different forecast growth is not decisive for the calculation of IFRS 9, as the medium-term behaviour (3 years) is more important than the short-term (1 year). The average annual growth for the overall period is in fact very similar.
With regard to the domestic inflation forecasts for 2022, which show lower increases than the Bank of Italy's most updated forecasts, which incorporated more recent developments (in particular, a new rebound in oil prices and continued high gas prices), they are not considered sufficient to affect the assumption of a likely subsequent decline towards 2%, as a result of the stabilisation of energy prices, and lead to significant revisions in the GDP growth forecasts. Moreover, the sensitivity analyses carried out show that the adoption of the most recent ECB and Bank of Italy forecasts, with respect to the internal scenario, indicate a similar effect to that estimated internally and used for the financial statements, for both the performing and non-performing portfolios.

Management overlays and triggers for sliding into Stage 2

As highlighted in the introduction to this Section, COVID-19 had a particular impact on the issues of classification of credit exposures, specifically the aspects linked to payment moratoria, as well as on the measurement of the significant increase in credit risk (SICR) and the measurement of expected losses for the purpose of determining the Expected Credit Losses (ECL) pursuant to IFRS 9.
Given the particular nature of the economic environment generated by the pandemic and the measures adopted by governments to deal with its impacts, the Group – in order to reflect elements of risk potentially present in the portfolio, but not fully captured by the models used to determine the SICR – has decided to incorporate specific management overlays in the satellite models aimed at including forward-looking information, to capture these elements of risk "correcting the estimates produced by the models".
More specifically, before describing the methods and assumptions used in the ECL calculation, it is worth noting that COVID-19, as the first pandemic in over a century, led the Group to consider a number of specific adjustments to its modelling in relation to the measurement of the significant increase in credit risk (SICR) and the measurement of expected losses for the purpose of determining the Expected Credit Losses (ECL) pursuant to IFRS 9. These adjustments were determined based on the management's judgement in order to better capture the uniqueness of this situation, also considering the continued substantial customer support measures, such as the payment moratoria that remained in place in Italy throughout 2021, albeit with a gradual reduction. The need for managerial adjustments and judgements of the current and future situation regarding the estimation methods adopted has been the subject of substantial guidance from the Regulators and Standard Setters, which had already expressed their opinions in 2020, setting out a framework that is still applicable, given the absence of any further significant regulatory interventions by the Regulators and Standard Setters in 2021.
Specifically, in the context described above, account was taken of the fact that, in the approach adopted by the Intesa Sanpaolo Group, the main parameter aimed at capturing any significant increase in credit risk (SICR) is expressed by the change in the probability of default, measured over the remaining lifetime of the financial asset ("delta PD lifetime"), for which the forecasting models with an impact on the "delta PD lifetime" component and staging allocation were developed based on historical experience that did not contemplate such exceptional precedents. In addition, account was taken of the need – in the context of the adoption of significant support measures by the Government – to maintain close monitoring of the evolution of the quality of credit exposures, which may not be adequately captured by the additional SICR indicators adopted (for the stage allocation, the Intesa Sanpaolo Group also considers more than 30 days past due and the presence of forbearance measures). Accordingly, the Group strengthened the action aimed at promptly identifying and introducing the aspects of counterparty vulnerability, only temporarily mitigated by the presence of the aforementioned measures, into the ECL estimates by means of management overlays.
These overlays, already adopted for the 2020 financial statements, were substantially maintained, in terms of the methodological framework, for the consolidated financial statements as at 31 December 2021, gradually refining them to take into account the evolution of the health and macroeconomic situation – characterised by a high degree of uncertainty throughout 2021 – and the greater amount of information available to the Group.
A description is provided below of the management overlays adopted and the methodological refinements made during the year.

Transfer of default flows due to the effects of moratoria granted and government guarantees obtained

In 2020, the Group had already adopted a specific management overlay – incorporated in the results of the forward-looking conditioning in the satellite models – aimed at "correcting" the estimated expected default flows, determined based on the application of the macroeconomic scenarios considered over time, to incorporate the effect that the moratoria have on transfers to default during their period of validity. Essentially, the overlay reduces the forecast of the flow of transfers to default during the period of validity of the moratoria and shifts these flows, in addition to those estimated by the satellite model, to subsequent periods, i.e. when the moratoria will expire and payment terms resume.

[75] On 21 January, the Bank of Italy updated its scenario, compared to the projections provided to contribute to the Eurosystem coordinated exercise, published on 17 December, in order to take account of certain factors, such as the new worsening of the pandemic and the higher energy prices observed in recent weeks. This limited revision resulted in a forecast of a slight reduction in GDP for 2022 to 3.8% (previously 4%), while the forecasts for 2023 and 2024 remained unchanged (2.5% and 1.7%, respectively). The Bank of Italy is below consensus for 2022 and in line with it for 2023. The average annual growth rates over the period are not significantly different.

In the 2020 financial statements, the overlay, applied to the domestic counterparties in the Corporate (excluding Large Corporate), Corporate SME, Retail SME and Mortgage segments, took into account the fact that the moratoria would allow a portion of the customer defaults estimated by the satellite models to be carried forward to the following year. Based on specific analyses, the overlay assumed a mitigating effect on the defaults for the year, i.e., that around 70% of the defaults would be avoided in 2020 due to access to moratoria, but that only a portion of the customers who had avoided default (15% in the baseline scenario) would also survive in 2021, thanks to the mitigation of financial problems and consequent possibility of taking advantage of the economic recovery. The above-mentioned overlay therefore effectively shifted the default expectation on the remaining 85% of the defaults not envisaged in 2020 to 2021.
In 2021, the overlay described above was extended, already from the half-yearly report, in view of the low levels of transfer to default observed in the period and the further six-month extension of the legislative moratoria granted by the "Sostegni bis" Decree. For the financial statements as at 31 December 2021, the overlay acted as follows: 70% of the defaults (at systemic level) estimated by the satellite models (based solely on macroeconomic variables, which therefore do not contain the impact of the government measures) for the period of maximum effectiveness of the moratoria (from mid-2020 to mid-2021) have been carried forward to 2022, except for the 15% portion that, having taken advantage of the economic recovery, is assumed to have avoided default (in the alternative scenarios, this survival percentage becomes 30% in the best-case scenario and zero in the worst-case scenario, in line with the narrative associated with those scenarios).
By amplifying the flow of transfers to future defaults, this approach seeks on a prudent basis to better capture the expected cliff-edge effect resulting from the removal of the government support measures. Indeed, it is worth noting that the systemic default rates observed in 2020 and 2021 were much lower than in the previous period despite the strong decline in GDP over the period. The effect of that overlay also acts through the SICR logics of the PD Change and therefore increases the transfers to Stage 2 and ECLs, which change from measurement at 12 months to lifetime. Overall, however, it bears recalling, especially in the comparison with the observations made in the 2020 financial statements, that the macroeconomic scenario adopted acts in the opposite direction through the forward-looking conditioning.
For the 2020 financial statements, the Intesa Sanpaolo Group also incorporated an additional management overlay in the forward-looking conditioning satellite models, aimed at capturing the mitigating effects on the future risk of the domestic Corporate (including Large Corporate), Corporate SME and Retail SME counterparties related to the acquisition of government guarantees, such as those resulting from the "Cura Italia" and "Liquidità" decrees. The overlay introduces a mitigation factor to be used to discount the default rate envisaged by the model over 24 months (July 2020 – June 2022).
This overlay has been maintained for the 2021 financial statements, with the same methodology and limited time effect. However, the assumed benefit on the decrease in expected default rates, as at 31 December 2021, is insignificant in amount, due to the smaller time window for the application of the mitigation, as envisaged by the methodology described above.

Extraordinary triggers for sliding into Stage 2
Given that indicators of a potential increase in credit risk, such as, primarily, the detection of amounts more than 30 days past due and, to a lesser extent, the granting of forbearance measures, have become less significant for the staging allocation, as a result of legislative initiatives to support the economy and the banking system, as well as the guidance from the Regulators and Standard Setters[76], the Intesa Sanpaolo Group decided to introduce "extraordinary" triggers for sliding into Stage 2, starting from the year 2020, acting on counterparties that were not already classified in that status under the IFRS 9 models (also corrected by the management overlays described in the paragraph above) and identified as counterparties that had benefited from the above-mentioned support measures.
Compared to the 2020 financial statements, in the subsequent quarterly reports the extraordinary criteria adopted for the triggers have been refined based on the developments observed, to take account of the continued presence of outstanding moratoria, the results of the credit risk monitoring initiatives conducted, also through specific action plans, and the progress of the specific rating updates made to take account of the developments in the pandemic situation. The assumptions for the application of the extraordinary Stage 2 triggers have been revised in light of the change in the macroeconomic environment, which has reduced the relevance of the distinction between higher risk and lower risk sectors and made the assessment of individual positions with a less robust rating and at least one moratorium still active more significant for the transition to Stage 2.
In the 2021 financial statements, these triggers consisted of the simultaneous presence of the following:
- counterparties with moratoria that have not yet expired or, if they have expired, are waiting for payments to be resumed; this is essentially the portfolio that adhered to the last additional legislative extension upon specific request (unlike the previous measures granted on a more mass basis), for which there is still no significant information on payments following the expiry of the moratorium;
- counterparties with medium/high risk profiles, as indicated by the internal ratings assigned and subject to specific re-rating initiatives under the above-mentioned Action Plans; specifically, the level of prudence has been strengthened by extending the scope of reference of the Corporate and SME (Small Medium Enterprises) counterparties to the risk classes starting from I4 inclusive and of the Retail non-SME counterparties to the risk classes starting from RT05 inclusive, as well as introducing a de-notching, for the higher risk classes, for the ECL calculation.

Additionally, in keeping with the approach already adopted from 2020, counterparties not already covered by the above criterion have been considered that have come up as yellow or orange in the "traffic light" system within the proactive credit monitoring. These consist of counterparties that – based on an assessment made by the individual relationship managers – need support in resuming payments when they come due, through measures designed to provide temporary relief from financial difficulties. Lastly, these triggers also act "downstream" on counterparties not already classified under the ordinary criteria.

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[76] See for example: ECB letter of 4 December 2020 "Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic", IASB document "IFRS 9 and COVID-19 – Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the COVID-19 pandemic" of 27 March 2020 and ECB Speech "An evolving supervisory response to the pandemic" of 1 October 2020.

As at 31 December 2021, the gross exposure classified as Stage 2, following the application of the extraordinary triggers described above, corresponded to over 20% of the total exposure of the portfolio in Stage 2 of around 56 billion euro.

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As a whole, the management overlays/extraordinary staging triggers adopted in the 2021 Financial Statements increased the adjustment allowance for performing loans to customers (equal to 2.5 billion euro) by a total amount estimated at around 700 million euro.
In contrast, the procyclical effect of the forward-looking assessments acted in the opposite manner. This is particularly significant in the estimate of the ECL for 2021, in light of the scenario that sees a significant economic recovery in the forecast for the three-year period 2022-24, while – if the 2020 Financial Statements are considered – that assessment had an opposite impact, capturing the forecasts of recession at the time to a greater extent.
In light of the above, the impact on the income statement for the year in terms of adjustments to performing loans generated by the above elements (application of the scenarios and management overlays/triggers), came to around 500 million euro in net recoveries (on-balance sheet loans and unsecured loans), reducing the significant increases applied in 2020, in light of the improved context.
However, that positive effect was partially mitigated by actions on the management models for estimating LGD.

ECL sensitivity analysis

The ECL, calculated in accordance with IFRS 9, was subject to sensitivity analysis aimed at analysing its variability with respect to the individual alternative scenarios.
That analysis was conducted on a performing loan portfolio (Stage 1 and Stage 2) relating to the scope representing the Group (which includes the Parent Company and the Banks in the IMI C&IB Division that represent around 80% of the Group's total exposure).
The sensitivity was determined based on the assumptions adopted for the alternative scenarios (best-case and worst-case) used to determine the add-on mentioned above, weighted at 100%, rather than the most-likely scenario, and maintaining the effects of the management overlays described above.
A summary is provided below of the quantitative impacts of the sensitivity analyses conducted on the ECL, as at 31 December 2021, according to the methodology described above and based on the scenarios determined internally by the Research Department.
The sensitivity of the portfolio to the worst-case scenario, as at 31 December 2021, would result in an increase of 205 million euro in the ECL, with 5.1 billion euro of exposures sliding to Stage 2 (around 9%). The coverage ratio for performing exposures would increase by 5 bps and for Stage 2 by 6 bps.
Conversely, the sensitivity of the portfolio to the best-case scenario would see a decrease of 205 million euro in the ECL, with a return to Stage 1 of 0.8 billion euro of exposures (around 1%). The coverage ratio for performing exposures would decrease by 5 bps and for Stage 2 by 23 bps.

2.4. Credit risk mitigation techniques

The risk mitigation techniques include those instruments that contribute to reducing the loss that Bank would incur in the event of counterparty default, i.e. the Loss Given Default described in the paragraph above. In particular, these include guarantees and certain types of contracts that reduce credit risk.

The assessment of these mitigating factors is carried out by associating through a procedure that assigns a Loss Given Default to each individual exposure, which takes higher values in the case of ordinary unsecured financing and is reduced, on the other hand, depending on the incremental strength of any mitigating factors present. The Loss Given Default values are subsequently aggregated at customer level in order to provide a summary evaluation of the strength of the mitigating factors on the overall credit relationship.

During the credit granting and managing process, the acquisition of mitigating factors is encouraged for counterparties with non-investment grade ratings or for certain types of medium/long-term transactions.

The mitigating factors that have the greatest impact include pledges of financial assets and residential mortgages. Other forms of risk mitigation are pledges on non-financial assets and non-residential mortgages.

The strength of the personal guarantees issued by rated parties, typically banks/insurance companies, Credit Guarantee Consortia and corporations, is instead assessed on the basis of the type of guarantee and guarantor's credit quality.

Detailed processes govern the material acquisition of the individual collateral and guarantees, identifying the structure responsible as well as the methods for their correct completion, for archiving the documentation and for the complete and timely recording of the related information in the applications.

The set of internal regulations and organisational and procedural controls is aimed at ensuring that:

- all the requirements for the validity and effectiveness of credit protection are satisfied;
- a standard contractual framework is defined for guarantees and collateral of general and current use, accompanied by full instructions for its use;
- Specific structures, other than those responsible for managing the commercial relationship with the customer, are identified by process in order to approve collateral and guarantee non standard contract.

The management of collateral and guarantees received uses a single platform at Group level, which is integrated with the register of assets and the portal that manages the real estate valuations.

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the valuation of the asset, the acquisition of the collateral and the control of its value. The enforcement of the collateral is handled by specialist departments, which are responsible for credit recovery.

In any case, the presence of collateral does not grant exemption from an overall assessment of the credit risk, focused mainly on the borrower's ability to meet the obligations assumed, irrespective of the associated collateral.

The assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed on a regulated market, or, otherwise, the estimated realizable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments accepted as collateral.

For real-estate collateral, the prudential market value is considered; for properties under construction, the construction cost is considered, net of prudential haircuts differentiated according to the intended use of the property.

Assets are appraised by internal and external appraisers. The external appraisers are included in a special list of professionals accredited on the basis of an individual verification of their capabilities, professionalism and experience. The valuation of residential properties used as collateral for mortgage loans to private individuals is mainly assigned to specialized companies. The work of the appraisers is monitored on an ongoing basis, by means of statistical verifications and sample checks carried out centrally.

The appraisers are required to produce estimates on the basis of standardised appraisal reports, differentiated according to the valuation method to be applied and the characteristics of the asset, in accordance with the Rules on real estate property valuation for credit purposes drawn up by the Bank. The internal rules are consistent with the "Guidelines for the valuation of real estate properties securing credit exposures" promoted by the Italian Banking Association and with the European Valuation Standards.

Property valuations are managed through a specific integrated platform covering the entire appraisal phase, ensuring that assignments are properly awarded, on an independent basis and according to objective criteria, the workflow is thoroughly monitored, valuation standards are correctly applied and all information and documents regarding real estate are recorded.

The market value of the real estate collateral is periodically recalculated through various statistical valuation methods, that make use of prices/coefficients provided by an external supplier with proven skills and a solid reputation for surveying and measuring the market prices of Italian real-estate assets.

Asset value is constantly monitored. For properties under construction appraisers carry out on-site inspections and verify the progress of work. The valuation is duly updated in the event of restriction or splitting mortgage, of damage to the property, significant impairment losses reported by market indicators used to monitor fair value and, in any case, according to the due dates established for significant exposures, or when there are real estate properties securing non-performing loans.

In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of a pledge when the assets decrease below their initial value or, for real estate collateral, the obligation of insurance cover against fire damage and the presence of adequate monitoring of the property's value. There is also an "umbrella" insurance policy that, with limited exceptions, covers damages on the entire portfolio of properties mortgaged as collateral for the loans granted. Collateral and guarantees are subject to accurate, regular control using a specific application, the CRM verifier, in which a series of tests have been implemented to confirm the effective compliance with the requirements set by prudential supervision regulations.

The support application verifies whether the collateral and guarantees received are eligible with regard to all three methods permitted by the regulations for calculating capital requirements (Standardised and Internal Rating Based). Based on the specifics of each category, the eligibility results are defined at the level of individual guarantee for unfunded guarantees (usually personal guarantees) or, for collateral, for each asset or financial instrument.

The Bank has completed the implementation of two integrated asset and guarantee management systems (PGA - Active Guarantees Portal and ABS - System Assets Archive) in order to improve the efficiency of collateral management. This has been accompanied by the development of a specific system for managing bad loans, to track the main legal actions and particularly those relating to the enforcement of real estate collateral (EPC - Ex Parte Creditoris).

In order to mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (Securities Financing Transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow the netting of claims and obligations if a counterparty defaults.
This is achieved by entering into International Swap Derivatives Association (ISDA) and International Securities Market Association/Public Securities Association (ISMA/PSA) agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
In addition, the Group has collateral exchange arrangements in place, mainly with daily frequency, to hedge OTC derivatives transactions (Credit Support Annexes), also due to the margin requirements for non-centrally cleared derivatives, established by the EMIR; also for SFTs, the Bank implements daily margining arrangements (GMRAs - Global Master Repurchase Agreements and GMSLAs - Global Master Securities Lending Agreements).
To mitigate the exposure to counterparties, mainly corporate customers, and the volatility arising from credit adjustments to derivative valuations (CVAs), the Bank also buys protection through credit default swaps, which provide collateral on individual companies or credit indices.

In 2021, the Parent Company continued its activities relating to the “GARC” (Active Credit Risk Management) Project, involving a platform for monitoring credit risk of performing portfolios. The initiative involves the systematic acquisition of both personal guarantees and collateral to support lending to companies.

The guarantees obtained provide hedging of default risk (past due, unlikely to pay and bad loan) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (including Regulation (EU) 575/2013 and Bank of Italy Circular 285/2013).

During the year – also under the GARC Project – the following activities with the Guarantee Fund for SMEs were carried out: (i) a tranched cover transaction to hedge the junior risk of a portfolio of newly issued loans and (ii) the “Tranched Cover Confcommercio” synthetic securitisation dedicated to member companies of Confcommercio and local Credit Guarantee Consortia to facilitate access to new credit and provide financial resources in support of trade, tourism and services through investments aimed at growth, technological upgrading and business innovation.

For details of the transactions carried out in 2021 under the GARC Project, see the description provided in paragraph C. Securitisations of this chapter.

In order to optimise capital absorption, transactions to hedge the risk of expropriation of the compulsory and unrestricted reserves of the ISP Group banks operating in Bosnia Herzegovina, Egypt and Moldova were also renewed and the hedging for the bank operating in Albania was increased.

3. NON-PERFORMING CREDIT EXPOSURES

3.1 Management strategies and policies

On 22 March 2021, the Board of Directors approved the annual revision of the Group NPL Plan, carried out on the basis of the ECB Guidance to banks on non-performing loans, which was sent to the Supervisor on 24 March 2021. The 2018-2021 NPL Plan is consistent with both the 2018-2021 Business Plan, approved by the Board of Directors in February 2018, and the Risk Appetite Framework, and takes into account the observations and recommendations of the Supervisory Authority.
The Group NPL Plan is made up of a main document (2018-2021 Group NPL Plan) which includes a summary of the initiatives detailed in the “Operational Plans” (drawn up at Business Owner level, which include the targets for reducing the stock of non-performing loans, the detailed measures and the enablers, as well as the related costs and investments required to achieve the targets set) and the projections underlying the NPL Plan, with the granular level and in accordance with the requirements established by the ECB.
In the 2018-2021 Business Plan, de-risking is the first pillar through which the Group aims to reduce the level of gross non-performing loans as a proportion of total loans, at no cost to shareholders. Over the Plan period, a 49% reduction in the stock of gross non-performing loans is envisaged with respect to the figure at the beginning of 2018, as well as the achievement of a gross NPL ratio of 6.0% (from 11.9% at the beginning of 2018 after the IFRS 9 FTA and including the two former Venetian banks). Following the implementation of several extraordinary de-risking operations on specific portfolios during the year, aimed at reducing the gross flow of new non-performing loans from performing loans, in addition to the classification of non-performing loan portfolios of the Intesa Sanpaolo Group ready to be sold under the caption Non-current assets held for sale and discontinued operations, for around 4.5 billion euro gross book value and 1.2 billion euro net, the Group exceeded its NPL deleveraging target of around 26 billion euro, set for the entire four-year period of the 2018-2021 Business Plan, by around 11 billion euro. At the end of 2021, non-performing loans before adjustments amounted to 15.2 billion euro bringing the ratio of non-performing loans to total loans to 3.2% gross and 1.5% net, with a cost of risk of 59 basis points (25 basis points excluding the additional adjustments on specific portfolios to accelerate the NPL deleveraging). Based on the EBA methodology, the NPL to total loan ratio stood at 2.4% gross and 1.2% net.

It is noted that starting from November 2019, in line with the additional clarifications introduced by Bank of Italy Circular 272 to implement that set out in the EBA 2016/07 Guidelines of 18/01/2017 on the application of the definition of default under Article 178 of Regulation 575/2013 (CRR), the Intesa Sanpaolo Group adopted the New Definition of Default in advance. That definition of non-performing loans also coincides with the definition of “impaired” financial assets contained in IFRS 9, with the consequent recognition of all non-performing loans within Stage 3.
Intesa Sanpaolo Group adopts a “per borrower” approach in identifying non-performing exposures. Accordingly, the entire counterparty with credit relationship is assessed and subsequently classified, rather than the individual credit lines granted to that counterparty.

Based on the regulatory framework, according to the rules of the Bank of Italy, in line with IAS/IFRS and European Supervisory Regulations, supplemented by internal implementing rules, non-performing financial assets are classified into one of the three below mentioned categories, based on their level of severity:

- non-performing Past Due exposures: this category includes on-balance sheet exposures, other than those classified as bad loans or unlikely to pay that, as at the reporting date, are past due or overdrawn by over 90 days on a continuous basis. The total exposure to a debtor must be recognised as Past Due if, at the reference reporting date, the amount of the principal, interest and/or fees not paid when due exceeds both of the following thresholds (hereinafter, collectively, the "Relevance Thresholds"):
  - the absolute limit of 100 euro for retail exposures and of 500 euro for non-retail exposures (the "Absolute Threshold"), to be compared with the total amount past due from the borrower;
  - the relative limit of 1%, to be compared with the ratio of the total amount past due to the total amount of all on-balance sheet exposures to the same borrower (the "Relative Threshold");
- unlikely to pay: exposures for which – according to the judgement of the creditor bank – full repayment is deemed unlikely (in terms of capital or interest), without considering recourse to actions such as enforcement of collateral/guarantees. This assessment is conducted regardless of the presence of any amounts (or instalments) due and unpaid. As the assessment of unlikelihood of repayment is at the discretion of the Bank, it is not necessary to await an explicit symptom of anomaly (non-repayment), when there are elements that imply a risk of non-compliance by the borrower (for example, a crisis in the industrial sector in which the borrower operates). The overall on- and off-balance sheet exposures toward the same borrower in said situation is therefore classified under the category "Unlikely To Pay" (unless the conditions for classification of the borrower among bad loans exist). Loans classified as "Unlikely To Pay" should include exposures to issuers who have not regularly honoured their repayment obligations (in terms of capital or interest) relating to listed debt securities, unless they meet the conditions for classification as bad loans. To this end the "grace period" established by the contract is recognised or, in its absence, the period recognised by the market listing the security.
  The Intesa Sanpaolo Group Rules have also provided for a further classification within "unlikely to pay" exposures, identified as "forborne unlikely to pay", which may include counterparties that have at least one exposure subject to forbearance measures that are regularly respected or remain in the state of risk pending the start of the normally imposed cure period (minimum of 12 months);
- bad loans: on- and off-balance sheet exposures to borrowers in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the Bank. This is irrespective, therefore, of whether any collateral or guarantees have been established to cover the exposures. Exposures whose anomalous situation may be attributed to Country risk are excluded from this category.

The type "exposures subject to concessions – forbearance" has also been established. These are exposures subject to renegotiation and/or refinancing due to financial difficulties (evident or in the process of becoming evident) of the debtor, which effectively constitute a subgroup of both non-performing exposures (non-performing exposures with forbearance measures) and performing exposures (other forborne exposures).
Non-performing exposures with forbearance measures do not represent a separate category of non-performing assets, rather, they are a sub-set of the above categories of non-performing assets.
Non-performing assets are subject to an assessment process resulting in the calculation of the expected loss for uniform categories (identified based on the risk status, duration of risk status and significance of the underlying exposure) and the allocation of the impairment adjustment for each position.
Non-performing loans are measured using two methods:

- analytical-statistical measurement: for exposures equal to or lower than certain thresholds, and for all non-performing past-due exposures, based on the use of specific LGD grids;
- specific analytical measurement: for exposures above certain thresholds based on write-down estimates defined by the relationship manager, following analyses and valuations based on pre-established criteria.

In addition to the assessment component determined through statistical valuation models or through individual expert evaluation, a component is calculated to take into account the evolution of the current operational variables, the future macroeconomic scenarios, the incremental risk of the counterparty as long as it remains in the specific risk status for unlikely-to-pay exposures (vintage), as well as the sales prospects if present.
The assessment of non-performing positions classified as assets held for sale was carried out based on the expected sales prices, less their costs to sell, supported by fairness opinions.
The assessment methods for non-performing loans are described in detail in Part A – Section "A.2 – Main financial statement captions" and in particular in the paragraph "Impairment of non-performing financial assets", to which reference is made.
The assessments are carried out upon classification of the exposures as non-performing and are reviewed periodically.
The assessment of the loans is also reviewed whenever a new event occurs that could affect the prospects for recovery (e.g. change in the value of collateral, developments in ongoing litigation, etc.).
In order to timely identify such events, the information set relative to borrowers and guarantors is periodically monitored and the development of out-of-court agreements and the various phases of the judicial procedures under way are constantly monitored.
The management of the Group's non-performing loans may be directly carried out by the internal organisational structures or by/with external partners granted appropriate mandates (outsourcers), for which the CLO Area performs a supervisory role in the management of stocks and flows outsourced and acts as an interface for the approvals beyond the limits of the powers delegated to them and for administrative, technical and operational activities envisaged in the processes of interaction with the outsourcers. The internal organisational structures are identified, on the basis of pre-determined relevance thresholds, as the local organisational units (at regional level) that perform specialist activities, or within the Head Office Departments, which are also responsible for the overall management and coordination of these matters.
The classification of positions to non-performing is performed on proposal of both territorial structures, owners of the commercial relationship, or of specialised central and local territorial structures in charge of the monitoring and recovery of non-performing loans. Classification may also be performed through automatic mechanisms when predefined objective default conditions arise. This refers, for example, to past-due loans continuously above certain thresholds for certain periods

and forborne performing positions (performing forborne positions originating from non-performing forborne positions) that have not yet completed their 24-month probation period, if they meet the conditions envisaged by the applicable regulations for their reallocation to non-performing loans, based on the verification of objective parameters and, specifically, for transactions already designated as forborne, so-called reiteration (i.e. the granting of a further forbearance measure) and/or continuously over 30 days past due above certain thresholds, and transactions subject to distressed restructuring with a loss exceeding 1%.
Furthermore, automatic mechanisms detect any mismatches, thereby ensuring that material non-performing loans to counterparties shared between the Group's various entities are subject to the required uniform convergence of management decisions. Materiality is represented by exceeding a pre-established warning threshold for loans classified as at the greatest risk, with respect to the overall exposure.
Automatic mechanisms within the system also ensure that positions are allocated to the risk status most representative of their creditworthiness (bad loans excluded) as material default continues.
The return to performing status of non-performing exposures is governed by the Supervisory Authority and specific internal regulations, and takes place on the proposal of the Structures responsible for their management, upon verification that the critical conditions or state of default no longer exist.
Non-performing Past Due exposures and Unlikely To Pay exposures, not subject to forbearance measures must continue to be classified as such for at least 3 months after they cease to meet the requirements for being classified as such. During the probation period the counterparty's conduct must be assessed in light of its financial situation (in particular, by verifying the absence of amounts past due exceeding the Relevance Thresholds).
For counterparties classified as Forborne Unlikely-to-Pay, the application of the cure period of at least 12 months shall prevail. At the end of this period, the position may be reclassified as performing, provided that there are no past due exposures of the borrower and the borrower has repaid a significant amount of the principal and interest and, more generally, the criteria for the counterparties returning to performing status are met.
Exposures classified as Past Due return automatically to performing when the 90-day probation period has passed. The same mechanism is applied to exposures of moderate amounts previously automatically classified as Unlikely To Pay when automatic mechanisms detect that the conditions that triggered the classification no longer apply.
The Internal Validation and Controls Head Office Department of the Chief Risk Officer Governance Area carries out II level controls on single non-performing positions, to verify proper classification and provisioning.

3.2 Write-offs

Lastly, with regard to non-performing loans, it is highlighted that the Intesa Sanpaolo Group uses the – full or partial – write-off/derecognition of unrecoverable accounting positions and, in the following cases, the consequent allocation to loss of the remainder that has not yet been adjusted:

a) uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
b) disposal of the loan;
c) waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
d) no waiver of the credit claim. With regard to the full or partial write-offs without waiver of the credit claim, in order to avoid maintaining loans on the balance sheet that have a very low possibility of recovery, despite continuing to be managed by the recovery structures, they are fully or partially written off due to uncollectability even if the legal proceedings have not been closed. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value.
   Therefore, on a periodic basis, the Group identifies the bad loan portfolios to be subject to total or partial write-offs with the following macro-characteristics:
   - percentage cover of 100% and a vintage (understood as the period of time in "bad loan" status) of >1 year;
   - percentage cover of >95% and a vintage (understood as the period of time in "bad loan" status) of >5 years or >8 years, respectively, for non-mortgage and mortgage loans.

Portfolios to be written off can also be identified that have similar characteristics that are different from those indicated above, but that relate to exposures that have a marginal possibility of recovering the amount of the provision, where the minimum amount of the provision (calculated taking into account the accumulated write-offs on the position, according to the same rule established at prudential level by the calendar provisioning framework) is at least equal to the amount needed to bring the value of the exposures up to their fair value estimated based on the prices recorded in the latest sales of bad loans made by the Group.
In 2021, the Group carried out write-offs on gross bad loans for around 1.3 billion euro. Of these, around 1.1 billion euro regarded bad loans, for the most part using the allowance already set aside. More than 90% of these write-offs related to derecognised positions that are still subject to enforcement procedures, for which any recoveries from collections after the write-off will be recognised in the income statement as recoveries.

3.3 Purchased or originated credit-impaired financial assets

According to IFRS 9, loans considered as impaired already upon initial recognition in the financial statements, due to the high credit risk associated with them, are defined as Purchased or Originated Credit Impaired Assets (POCI).
If these loans fall within the scope of impairment in accordance with IFRS 9, they are valued by allocating allowances - from the date of initial recognition - to cover losses for the entire residual life of the loan (lifetime Expected Credit Loss). Since these are non-performing loans, they are initially recognised within Stage 3, subject to the possibility of being transferred, over the course of their lives, to Stage 2 if, based on the credit risk analysis, they are identified as no longer being impaired.
POCI loans recorded in the Group's financial statements may derive from single renegotiations of non-performing exposures carried out as part of routine lending activity or be recognised following business combinations. With regard to the latter case, the acquisition of the former UBI Group during 2020 resulted in the recognition of a significant portfolio of non-performing loans, which, therefore, were initially recognised as POCI pursuant to IFRS 9 and posted in the financial statements at the fair value determined on Purchase Price Allocation, as the initial recognition value. More in detail, at the acquisition date (4 August 2020), the accounting records of the UBI Group had gross non-performing loans amounting to around 6.5 billion euro (8 billion euro in terms of credit claim). From initial recognition, a significant part of that acquired portfolio was already subject to deleveraging by the former UBI Group as at the acquisition date, completed at the end of 2020, in addition to another significant portion of former UBI non-performing loans included in the business line consisting of the bank branches to be sold to BPER under a binding agreement conditional upon the success of the Public Purchase and Exchange Offer, entered into between Intesa Sanpaolo and BPER Banca to prevent potential antitrust issues. In addition, at the end of December 2020, the Group identified more former UBI non-performing POCI positions designated as held for sale in accordance with IFRS 5 and, consequently, as at 31 December 2020, the assets measured at amortised cost amounted to a total of 327 million euro, consisting of 267 million euro of non-performing loans and 60 million euro of positions that had returned to performing status.

In light of the sales already carried out in 2021, and those planned in 2022 recognised under assets held for sale, the POCI loans referring to the former UBI Group posted in the consolidated financial statements as at 31 December 2021 remain under assets measured at amortised cost for substantially residual amounts, which saw an increase in the positions returned to performance status, totalling 284 million euro, consisting of 211 million euro of non-performing loans and 73 million euro of performing positions.

4. COMMERCIAL RENEGOTIATED FINANCIAL ASSETS AND FORBORNE EXPOSURES

Forbearance measures are concessions made to a borrower that is facing, or could face, situations of difficulty in meeting their contractual commitments that would prevent them from meeting their original payment obligations (troubled debt).
The term "forbearance measures" indicates contractual modifications granted to the borrower undergoing financial difficulties (modification), as well as the disbursement of a new loan in order to satisfy the pre-existing obligation (refinancing). "Forbearance measures" include the exercise of clauses, which may be freely requested by a borrower with regard to a contract already signed, but only if the lender deems that there are circumstances indicating that the borrower is in financial difficulty (the so-called "embedded forbearance clauses"). The concept of "forborne" therefore does not include renegotiations carried out due to commercial reasons/practices, which do not take into account the financial difficulties of the borrower.
In many cases, a situation of financial difficulty is accompanied by a situation of economic instability of the borrower, consisting of the inability of the core business to remunerate all the production factors that the company needs, through the usual sources of cash flow and at normal market conditions.
The identification of "forborne assets" or "forborne exposures", in line with the provisions of the EBA regulations and unlike the "per borrower" approach used by the Intesa Sanpaolo Group for the classification of non-performing exposures, necessarily takes place on a "per transaction" basis. The term "exposure" in this context refers to the renegotiated individual contract, rather than to all the exposures to the same borrower.
More generally, Intesa Sanpaolo Group's policy, based on the instructions provided by the Supervisory Authorities, envisages criteria for the identification of the financial difficulty (of the performing borrower) which, in the event of renegotiation/refinancing, entails the classification of one (or more) credit line(s) as forborne, if at least one of the following conditions applies:

- a significant deterioration in the debtor's rating identified in the previous three months;
- the presence of exposures past due by thirty days or more at the measurement date associated with a rating level in the highest-risk band;
- Early Warning System (EWS) colour "red", associated with a rating in the highest risk band.

A state of financial difficulty is always assumed in the case where the borrower is classified as non-performing.
The definition of forborne exposure applies transversally to the classification macro-categories (performing and non-performing). Forborne assets may be included in Stage 2 (Performing) or Stage 3 (Non-Performing – forborne non-performing).
The forbearance measures granted are monitored for minimum predefined periods, differentiated based on the administrative status of the risk assigned to the counterparty. In detail:

- 24 months for performing positions (probation period);
- 36 months for positions classified as non-performing, represented by a cure period of 12 months and a probation period of an additional 24 months.

When a forbearance measure is granted to a performing counterparty, quantitative assessments (diminished financial obligation indicator set at 1%) and/or qualitative assessments are performed, as envisaged in the EBA Guidelines on the application of the definition of default pursuant to Article 178 of Regulation (EU) 575/2013, which could result in the possible classification to Non-Performing.

According to Intesa Sanpaolo Group's interpretations, the identification of an exposure as forborne necessarily implies the existence of a "significant increase" in risk since the origination of the loan (and, therefore, implies also a classification in stages 2 or 3 at the time of assignment of the forborne status).
Unlike the forbearance measures, which relate to loans to borrowers in financial difficulty, renegotiations for commercial reasons involve borrowers that are not in financial difficulty and include all transactions aimed at adjusting the cost of the debt to market conditions.
Transactions involving commercial renegotiations result in a change in the original conditions of the contract, usually requested by the borrower, which normally relate to aspects concerning the cost of the debt (or its duration), with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer would borrow from another intermediary and the bank would incur a decrease in expected future revenues.
These operations, under certain conditions, are treated for accounting purposes as an early repayment of the original debt and the opening of a new loan.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term "credit exposures" is understood to exclude equities and quotas of UCI.

The term "on-balance sheet credit exposures" refers to all the on-balance sheet financial assets due from banks or customers, irrespective of the accounting portfolio they are allocated to (measured at fair value through profit or loss, measured at fair value through other comprehensive income, measured at amortised cost, or discontinued financial assets). On demand receivables due from banks and central banks come under the definition of on-balance sheet exposures but by convention are not included in the tables in Section 1, except in specifically identified cases where they must be considered.

The term "off-balance sheet exposures" refers to all the financial transactions that are not on the balance sheet (guarantees given, revocable and irrevocable commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of those transactions (trading, hedging, etc.). The off-balance sheet credit exposures also include the counterparty risk associated with any securities lending transactions. Where necessary, the counterparty risk associated with exposures relating to repurchase agreements, transactions involving the granting or assumption of goods on loan, and loans with margins falling within the notion of securities financing transactions defined by the prudential regulations, is also reported.

Non-performing credit exposures (on-balance sheet and off-balance sheet) do not include financial assets held for trading and hedging derivatives, which are therefore normally recognised as performing credit exposures.

A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, economic and geographical breakdown

A.1.1. Prudential consolidation - Breakdown of financial assets by past-due brackets (book value)

(millions of euro)

Portfolios/risk stages	STAGE 1			STAGE 2			STAGE 3			PURCHASED OR ORIGINATED CREDIT-IMPAIRED		
	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days
1. Financial assets measured at amortised cost	1,954	236	155	2,623	598	194	416	228	4,527	7	9	232
2. Financial assets measured at fair value through other comprehensive income	238	-	-	-	-	-	-	-	-	-	-	-
3. Non-current financial assets held for sale	-	-	-	-	-	-	50	9	928	-	-	29
Total 31.12.2021	**2,192**	**236**	**155**	**2,623**	**598**	**194**	**466**	**237**	**5,455**	**7**	**9**	**261**
Total 31.12.2020	**2,472**	**364**	**170**	**1,142**	**717**	**351**	**588**	**282**	**8,030**	**64**	**83**	**1,570**

A.1.2. Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and total provisions

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS											
	Stage 1 assets						Stage 2 assets					
	On demand due from banks and Central Banks	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	*of which: individual impairment losses*	*of which: collective impairment losses*	On demand due from banks and Central Banks	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	*of which: individual impairment losses*	*of which: collective impairment losses*
Total opening adjustments	**1**	**865**	**29**	**41**	***721***	***215***	**1**	**2,080**	**16**	**84**	***1,957***	***224***
Changes in increase from financial assets acquired or originated	-	359	18	-	*311*	*66*	-	19	-	-	*14*	*5*
Cancellations other than write-offs	-	-120	-9	-41	*-150*	*-20*	-	-147	-5	-84	*-224*	*-12*
Net value adjustments / write-backs for credit risk	-	-392	-4	-	*-329*	*-67*	-	-112	4	-	*-144*	*36*
Contractual changes without cancellations	-	34	4	-	*37*	*1*	-	-7	-4	-	*-18*	*7*
Changes in the estimation methodology	-	1	-	-	-	*1*	-	2	-	-	-	*2*
Write-offs non recorded directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-
Other variations	-1	19	-	-	*-13*	*31*	-	-43	-	-	*-8*	*-35*
Total closing adjustments	**-**	**766**	**38**	**-**	***577***	***227***	**1**	**1,792**	**11**	**-**	***1,577***	***227***
Recoveries from financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recorded directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS										
	Stage 3 assets						Purchased or originated credit-impaired financial assets				
	On demand due from banks and Central Banks	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	*of which: individual impairment losses*	*of which: collective impairment losses*	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	*of which: individual impairment losses*	*of which: collective impairment losses*
Total opening adjustments	**-**	**10,062**	**48**	**2,781**	***12,433***	***458***	**160**	**-**	**556**	***706***	***10***
Changes in increase from financial assets acquired or originated	-	3	-	-	*2*	*1*	X	X	X	*X*	*X*
Cancellations other than write-offs	-	-3,763	-4	-2,787	*-6,486*	*-68*	-41	-	-551	*-592*	-
Net value adjustments / write-backs for credit risk	-	3,001	-	-	*2,853*	*148*	24	-	-	*25*	*-1*
Contractual changes without cancellations	-	58	-	-	*55*	*3*	-	-	-	-	-
Changes in the estimation methodology	-	-2	-	-	*-2*	-	-	-	-	-	-
Write-offs non recorded directly in the income statement	-	-1,174	-	-44	*-1,149*	*-69*	-28	-	-4	*-32*	-
Other variations	-	-24	-9	3,281	*3,234*	*14*	26	-	66	*91*	*1*
Total closing adjustments	**-**	**8,161**	**35**	**3,231**	***10,940***	***487***	**141**	**-**	**67**	***198***	***10***
Recoveries from financial assets subject to write-off	-	57	-	1	*57*	*1*	-	-	-	-	-
Write-offs recorded directly in the income statement	-	-128	-	-	*-122*	*-6*	-	-	-	-	-

A.1.2. Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and total provisions – continued –

(millions of euro)

Reasons/risk stages	TOTAL PROVISIONS ON COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES GIVEN				TOTAL
	Stage 1	Stage 2	Stage 3	Commitments to disburse funds and financial guarantees given impaired purchased or originated	
Total opening adjustments	**128**	**155**	**316**	**-**	**17,323**
Changes in increase from financial assets acquired or originated	18	-	-	-	**417**
Cancellations other than write-offs	-9	-16	-10	-	**-7,587**
Net value adjustments / write-backs for credit risk	-30	-27	-75	-	**2,389**
Contractual changes without cancellations	-	-	-	-	**85**
Changes in the estimation methodology	-	-	-	-	**1**
Write-offs non recorded directly in the income statement	-	-	-	-	**-1,250**
Other variations	3	-8	2	-	**3,312**
Total closing adjustments	**110**	**104**	**233**	**-**	**14,690**
Recoveries from financial assets subject to write-off	-	-	-	-	**58**
Write-offs recorded directly in the income statement	-	-	-	-	**-128**

The Intesa Sanpaolo Group does not use the simplified method for the valuation of the loss allowance in relation to trade receivables, contract assets and lease receivables (method envisaged by IFRS 9, paragraph 5.5.15).

A.1.3. Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: transfers between stages of credit risk (gross and nominal amounts)

(millions of euro)

Portfolios/risk stages	GROSS AMOUNTS/NOMINAL VALUE					
	Transfers between Stage 1 and Stage 2		**Transfers between Stage 2 and Stage 3**		**Transfers between Stage 1 and Stage 3**	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
1. Financial assets measured at amortised cost	35,559	23,222	1,422	420	1,465	172
2. Financial assets measured at fair value through other comprehensive income	61	478	-	-	-	-
3. Non-current financial assets held for sale	66	135	59	3	46	1
4. Commitments to disburse funds and financial guarantees given	13,959	15,718	126	28	198	51
Total 31.12.2021	**49,645**	**39,553**	**1,607**	**451**	**1,709**	**224**
Total 31.12.2020	**86,218**	**16,781**	**1,780**	**514**	**1,498**	**176**

A.1.3a Loans subject to COVID-19 support measures: transfers between stages of credit risk (gross amounts)

(millions of euro)

Portfolios/Risk stages	GROSS EXPOSURE / PAR VALUE					
	Transfers between Stage 1 and Stage 2		**Transfers between Stage 2 and Stage 3**		**Transfer between Stage 1 and Stage 3**	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
A. Loans measured at amortized cost	**7,818**	**920**	**214**	**13**	**539**	**12**
A.1 subject to EBA-compliant moratoria	656	4	4	3	2	-
A.2 Loans subject to outstanding moratorium measures no longer compliant with the GL and not considered forborne	1,834	44	9	1	16	-
A.3 subject to COVID-19-related forbearance measures	546	2	134	6	393	-
A.4 newly originated loans	4,782	870	67	3	128	12
B. Loans and advances valued at fair value with an impact on overall profitability	**-**	**-**	**-**	**-**	**-**	**-**
B.1 subject to EBA-compliant moratoria	-	-	-	-	-	-
B.2 Loans subject to outstanding moratorium measures no longer compliant with the GL and not considered forborne	-	-	-	-	-	-
B.3 subject to COVID-19-related forbearance measures	-	-	-	-	-	-
B.4 newly originated loans	-	-	-	-	-	-
Total 31.12.2021	**7,818**	**920**	**214**	**13**	**539**	**12**
Total 31.12.2020	**7,834**	**788**	**126**	**109**	**158**	**32**

The row Loans “subject to EBA-compliant moratoria” shows the information relating to financial assets subject to moratoria that fall within the scope of application of the “Guidelines on legislative and non legislative moratoria on loan repayments applied in the light of the COVID 19 crisis”, published by the EBA (EBA/GL/2020/02), as amended.
The row “Loans subject to outstanding moratorium measures no longer compliant with the GL and not considered forborne” shows the outstanding loans subject to moratoria, assessed as compliant with EBA/GL/2020/02 at the date the measure was granted, but no longer compliant at the reporting date, which were not classified by the bank as “forborne exposures” (as defined by the supervisory reports in force) following the assessment conducted on occurrence of the event that generated the non-compliance with EBA/GL/2020/02.
The row “newly originated loans” presents the information on the exposures for which new liquidity was granted, with the support of government guarantees.

A.1.4. Prudential Consolidation – On- and off-balance sheet credit exposures to banks: gross and net values

(millions of euro)

Type of exposure/amounts	Gross exposure					Total adjustments and total provisions for credit risk					Net exposure	Total partial write-offs
		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		
A. ON-BALANCE SHEET EXPOSURES												
A.1 ON DEMAND	**10,496**	**10,388**	**108**	**-**	**-**	**-1**	**-**	**-1**	**-**	**-**	**10,495**	**-**
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	10,496	10,388	108	X	-	-1	-	-1	X	-	10,495	-
A.2 OTHERS	**170,925**	**169,129**	**495**	**70**	**-**	**-41**	**-17**	**-7**	**-17**	**-**	**170,884**	**4**
a) Bad loans	4	X	-	4	-	-4	X	-	-4	-	-	4
- of which: forborne exposures	*-*	*X*	*-*	*-*	*-*	*-*	*X*	*-*	*-*	*-*	*-*	*-*
b) Unlikely to pay	66	X	-	66	-	-13	X	-	-13	-	53	-
- of which: forborne exposures	*66*	*X*	*-*	*66*	*-*	*-13*	*X*	*-*	*-13*	*-*	*53*	*-*
c) Non-performing past due exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	*-*	*X*	*-*	*-*	*-*	*-*	*X*	*-*	*-*	*-*	*-*	*-*
d) Performing past due exposures	859	831	28	X	-	-1	-1	-	X	-	858	-
- of which: forborne exposures	*-*	*-*	*-*	*X*	*-*	*-*	*-*	*-*	*X*	*-*	*-*	*-*
e) Other performing exposures	169,996	168,298	467	X	-	-23	-16	-7	X	-	169,973	-
- of which: forborne exposures	*9*	*-*	*9*	*X*	*-*	*-*	*-*	*-*	*X*	*-*	*9*	*-*
TOTAL (A)	**181,421**	**179,517**	**603**	**70**	**-**	**-42**	**-17**	**-8**	**-17**	**-**	**181,379**	**4**
B. OFF-BALANCE SHEET EXPOSURES												
a) Non-performing	24	X	-	24	-	-	X	-	-	-	24	-
b) Performing	66,723	38,722	1,128	X	-	-1	-1	-	X	-	66,722	-
TOTAL (B)	**66,747**	**38,722**	**1,128**	**24**	**-**	**-1**	**-1**	**-**	**-**	**-**	**66,746**	**-**
TOTAL (A+B)	**248,168**	**218,239**	**1,731**	**94**	**-**	**-43**	**-18**	**-8**	**-17**	**-**	**248,125**	**4**

A.1.5. Prudential Consolidation – On- and off-balance sheet credit exposures to customers: gross and net values

(millions of euro)

Type of exposure/Amounts	Gross exposure					Total adjustments and total provisions for credit risk					Net Exposure	Total partial write-offs
		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		
A. ON-BALANCE SHEET EXPOSURES												
a) Bad loans	9,461	X	-	9,150	306	-6,897	X	-	-6,750	-144	2,564	6,523
- of which: forborne exposures	*1,849*	*X*	*-*	*1,797*	*48*	*-1,294*	*X*	*-*	*-1,273*	*-19*	*555*	*437*
b) Unlikely to pay	9,915	X	-	9,560	256	-4,582	X	-	-4,508	-60	5,333	627
- of which: forborne exposures	*4,152*	*X*	*-*	*3,998*	*129*	*-1,562*	*X*	*-*	*-1,539*	*-17*	*2,590*	*236*
c) Non-performing past due exposures	774	X	-	770	3	-152	X	-	-152	-	622	4
- of which: forborne exposures	*169*	*X*	*-*	*169*	*-*	*-32*	*X*	*-*	*-32*	*-*	*137*	*-*
d) Performing past due exposures	5,372	1,764	3,554	X	8	-177	-11	-166	X	-	5,195	-
- of which: forborne exposures	*778*	*3*	*773*	*X*	*2*	*-77*	*-*	*-77*	*X*	*-*	*701*	*-*
e) Other performing exposures	578,127	497,073	57,225	X	114	-2,410	-776	-1,630	X	-4	575,717	-
- of which: forborne exposures	*7,838*	*589*	*6,874*	*X*	*45*	*-436*	*-5*	*-429*	*X*	*-2*	*7,402*	*-*
TOTAL (A)	**603,649**	**498,837**	**60,779**	**19,480**	**687**	**-14,218**	**-787**	**-1,796**	**-11,410**	**-208**	**589,431**	**7,154**
B. OFF-BALANCE SHEET EXPOSURES												
a) Non-performing	1,507	X	-	1,501	6	-233	X	-	-233	-	1,274	-
b) Performing	328,421	226,284	21,073	X	1	-213	-109	-104	X	-	328,208	-
TOTAL (B)	**329,928**	**226,284**	**21,073**	**1,501**	**7**	**-446**	**-109**	**-104**	**-233**	**-**	**329,482**	**-**
TOTAL (A+B)	**933,577**	**725,121**	**81,852**	**20,981**	**694**	**-14,664**	**-896**	**-1,900**	**-11,643**	**-208**	**918,913**	**7,154**

The dealings between the Banking Group and other non-banking companies included within the scope of consolidation amounted to:

– 306 million euro, adjusted by 71 million euro, included among gross non-performing on-balance sheet exposures to customers;
– 8,600 million euro, adjusted by 18 million euro, included among gross performing on-balance sheet exposures to customers;
– 27 million euro, adjusted by 3 million euro, included among gross non-performing off-balance sheet exposures to customers;
– 7,698 million euro, adjusted by 19 million euro, included among gross performing off-balance sheet exposures to customers;

The exposures also include financial assets allocated to the accounting portfolio of discontinued operations.

A.1.5a Loans subject to COVID-19 support measures: gross and net amounts

(millions of euro)

Loans types / amounts	Gross exposure					Total value adjustments and total provisions					Net exposure	Write-off partial total
		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		
A. BAD LOANS	**23**	**-**	**-**	**23**	**-**	**-15**	**-**	**-**	**-15**	**-**	**8**	**-**
a) Subject to EBA-compliant moratoria	-	-	-	-	-	-	-	-	-	-	-	-
b) Loans subject to outstanding moratorium measures no longer compliant with the GL and not considered forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other COVID-19-related forbearance measures	5	-	-	5	-	-3	-	-	-3	-	2	-
d) Newly originated loans	18	-	-	18	-	-12	-	-	-12	-	6	-
B. UNLIKELY TO PAY LOANS	**504**	**-**	**-**	**503**	**1**	**-142**	**-**	**-**	**-142**	**-**	**362**	**-**
a) Subject to EBA-compliant moratoria	8	-	-	8	-	-2	-	-	-2	-	6	-
b) Loans subject to outstanding moratorium measures no longer compliant with the GL and not considered forborne	28	-	-	28	-	-7	-	-	-7	-	21	-
c) Subject to other COVID-19-related forbearance measures	315	-	-	314	1	-87	-	-	-87	-	228	-
d) Newly originated loans	153	-	-	153	-	-46	-	-	-46	-	107	-
C. NON-PERFORMING PAST DUE LOANS	**39**	**-**	**-**	**39**	**-**	**-6**	**-**	**-**	**-6**	**-**	**33**	**-**
a) Subject to EBA-compliant moratoria	3	-	-	3	-	-1	-	-	-1	-	2	-
b) Loans subject to outstanding moratorium measures no longer compliant with the GL and not considered forborne	2	-	-	2	-	-	-	-	-	-	2	-
c) Subject to other COVID-19-related forbearance measures	5	-	-	5	-	-1	-	-	-1	-	4	-
d) Newly originated loans	29	-	-	29	-	-4	-	-	-4	-	25	-
D. OTHER PAST DUE PERFORMING LOANS	**758**	**66**	**692**	**-**	**-**	**-18**	**-**	**-18**	**-**	**-**	**740**	**-**
a) Subject to EBA-compliant moratoria	2	-	2	-	-	-	-	-	-	-	2	-
b) Loans subject to outstanding moratorium measures no longer compliant with the GL and not considered forborne	504	1	503	-	-	-12	-	-12	-	-	492	-
c) Subject to other COVID-19-related forbearance measures	113	-	113	-	-	-5	-	-5	-	-	108	-
d) Newly originated loans	139	65	74	-	-	-1	-	-1	-	-	138	-
E. OTHER PERFORMING LOANS	**43,768**	**35,116**	**8,648**	**-**	**4**	**-274**	**-44**	**-230**	**-**	**-**	**43,494**	**-**
a) Subject to EBA-compliant moratoria	1,089	111	978	-	-	-40	-	-40	-	-	1,049	-
b) Loans subject to outstanding moratorium measures no longer compliant with the GL and not considered forborne	2,300	220	2,079	-	1	-88	-1	-87	-	-	2,212	-
c) Subject to other COVID-19-related forbearance measures	1,054	4	1,049	-	1	-63	-	-63	-	-	991	-
d) Newly originated loans	39,325	34,781	4,542	-	2	-83	-43	-40	-	-	39,242	-
TOTAL (A+B+C+D+E)	**45,092**	**35,182**	**9,340**	**565**	**5**	**-455**	**-44**	**-248**	**-163**	**-**	**44,637**	**-**

The row Loans “subject to EBA-compliant moratoria” shows the information relating to financial assets subject to moratoria that fall within the scope of application of the “Guidelines on legislative and non legislative moratoria on loan repayments applied in the light of the COVID 19 crisis”, published by the EBA (EBA/GL/2020/02), as amended.

The row “Loans subject to outstanding moratorium measures no longer compliant with the GL and not considered forborne” shows the outstanding loans subject to moratoria, assessed as compliant with EBA/GL/2020/02 at the date the measure was granted, but no longer compliant at the reporting date, which were not classified by the bank as “forborne exposures” (as

defined by the supervisory reports in force) following the assessment conducted on occurrence of the event that generated the non-compliance with EBA/GL/2020/02.
The row “newly originated loans” presents the information on the exposures for which new liquidity was granted, with the support of government guarantees.
The loans subject to COVID-19 support measures presented in the table also include loans allocated to the accounting portfolio of discontinued operations.

A.1.6. Prudential Consolidation – On-balance sheet credit exposures to banks: changes in gross non-performing exposures

(millions of euro)

Reasons/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposure	**4**	**79**	**-**
- of which: exposures sold not derecognised	-	-	-
B. Increases	**-**	**1**	**-**
B.1 inflows from performing exposures	-	-	-
B.2 inflows from purchased or originated credit-impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures categories	-	-	-
B.4 changes in contracts without derecognition	-	-	-
B.5 other increases	-	1	-
- of which: business combinations			
C. Decreases	**-**	**-14**	**-**
C.1 outflows to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-13	-
C.4 profits on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposure categories	-	-	-
C.7 changes in contracts without derecognition	-	-	-
C.8 other decreases	-	-1	-
D. Final gross exposure	**4**	**66**	**-**
- of which: exposures sold not derecognised	-	-	-

A.1.6. Bis Prudential Consolidation – On-balance sheet credit exposures to banks: changes in gross forborne exposures broken down by credit quality

(millions of euro)

Description/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	**79**	**-**
- of which: exposures sold not derecognised	-	-
B. Increases	**1**	**13**
B.1 inflows from non-forborne performing exposures	-	13
B.2 inflows from forborne performing exposures	-	X
B.3 inflows from non-performing forborne exposures	X	-
B.4 inflows from forborne non-performing exposures	-	-
B.5 other increases	1	-
C. Decreases	**-14**	**-4**
C.1 outflows to non-forborne performing exposures	X	-
C.2 outflows to forborne performing exposures	-	X
C.3 outflows to non-performing forborne exposures	X	-
C.4 write-offs	-	-
C.5 collections	-13	-3
C.6 profits on disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-1	-1
D. Final gross exposure	**66**	**9**
- of which: exposures sold not derecognised	-	-

A.1.7. Prudential Consolidation – On-balance sheet credit exposures to customers: changes in gross non-performing exposures

(millions of euro)

Reasons/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposure	**13,755**	**12,299**	**637**
- of which: exposures sold not derecognised	*8*	*15*	*1*
B. Increases	**2,270**	**3,293**	**1,057**
B.1 inflows from performing exposures	134	2,161	928
B.2 inflows from purchased or originated credit-impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures categories	1,466	495	12
B.4 changes in contracts without derecognition	-	8	-
B.5 other increases	670	629	117
C. Decreases	**-6,564**	**-5,677**	**-920**
C.1 outflows to performing exposures	-88	-544	-291
C.2 write-offs	-1,124	-252	-2
C.3 collections	-757	-1,148	-122
C.4 profits on disposal	-1,112	-1,416	-8
C.5 losses on disposal	-17	-15	-
C.6 transfers to other non-performing exposure categories	-108	-1,400	-465
C.7 changes in contracts without derecognition	-	-28	-
C.8 other decreases	-3,358	-874	-32
D. Final gross exposure	**9,461**	**9,915**	**774**
- of which: exposures sold not derecognised	*196*	*862*	*242*

The “other increases” mainly include the increases in the amounts for charges and the increase in the amounts in foreign currency due to changes in the exchange rate.
The “other decreases” mainly include the portfolio of loans classified as “bad loans” and “unlikely to pay” sold during the year.

A.1.7. Bis Prudential Consolidation – On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

(millions of euro)

Reasons/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	**7,244**	**5,899**
- of which: exposures sold not derecognised	*11*	*2*
B. Increases	**2,315**	**5,426**
B.1 inflows from non-forborne performing exposures	617	4,711
B.2 inflows from forborne performing exposures	344	X
B.3 inflows from non-performing forborne exposures	X	323
B.4 inflows from forborne non-performing exposures	433	7
B.5 other increases	921	385
C. Decreases	**-3,389**	**-2,709**
C.1 outflows towards non-forborne performing exposures	X	-1,362
C.2 outflows towards forborne performing exposures	-323	X
C.3 outflows towards non-performing forborne exposures	X	-344
C.4 write-offs	-239	-
C.5 collections	-594	-781
C.6 profits on disposal	-687	-1
C.7 losses on disposal	-8	-
C.8 other decreases	-1,538	-221
D. Final gross exposure	**6,170**	**8,616**
- of which: exposures sold not derecognised	*580*	*1,780*

The “other increases” mainly include the increases in the amounts for charges.
The “other decreases” mainly include the portfolio of loans classified as “bad loans” and “unlikely to pay” sold during the year.

A.1.8 Prudential Consolidation – On-balance sheet non-performing credit exposures to banks: changes in total adjustments

(millions of euro)

Reasons/Categories	**BAD LOANS**		**UNLIKELY TO PAY**		**NON-PERFORMING PAST DUE EXPOSURES**	
	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*
A. Initial total adjustments	**4**	**-**	**14**	***14***	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-
B. Increases	**-**	**-**	**2**	**-**	**-**	**-**
B.1 adjustments to purchased or originated credit-impaired assets	-	*X*	-	*X*	-	*X*
C.2 other adjustments	-	-	-	-	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other non-performing exposures categories	-	-	-	-	-	-
B.5 changes in contracts without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	2	-	-	-
C. Decreases	**-**	**-**	**-3**	**-1**	**-**	**-**
C.1 recoveries on impairment losses	-	-	-1	-1	-	-
C.2 recoveries on repayments	-	-	-2	-	-	-
C.3 profits on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other non-performing exposure categories	-	-	-	-	-	-
C.6 changes in contracts without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Final total adjustments	**4**	**-**	**13**	**13**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-

A.1.9 Prudential Consolidation – On-balance sheet non-performing credit exposures to customers: changes in total adjustments

(millions of euro)

Reasons/Categories	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES	
	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*
A. Initial total adjustments	**8,737**	**1,066**	**4,771**	**1,596**	**111**	**4**
- of which: exposures sold not derecognised	*3*	*-*	*3*	*2*	*-*	*-*
B. Increases	**3,234**	***663***	**1,951**	***805***	**213**	***32***
B.1 adjustments to purchased or originated credit-impaired assets	-	*X*	-	*X*	-	*X*
C.2 other adjustments	2,324	*434*	1,408	*567*	163	*31*
B.3 losses on disposal	17	*13*	15	13	-	-
B.4 transfers from other non-performing exposures categories	668	*200*	161	10	3	-
B.5 changes in contracts without derecognition	-	-	83	*83*	1	*1*
B.6 other increases	225	*16*	284	*132*	46	-
C. Decreases	**-5,074**	**-435**	**-2,140**	**-839**	**-172**	**-4**
C.1 recoveries on impairment losses	-277	*-54*	-322	-152	-39	-
C.2 recoveries on repayments	-143	*-11*	-140	-66	-10	-
C.3 profits on disposal	-65	*-14*	-25	-19	-	-
C.4 write-offs	-1,124	*-130*	-252	-109	-2	-
C.5 transfers to other non-performing exposure categories	-72	*-7*	-652	-200	-108	-3
C.6 changes in contracts without derecognition	-	-	-16	*-16*	-	-
C.7 other decreases	-3,393	*-219*	-733	-277	-13	-1
D. Final total adjustments	**6,897**	**1,294**	**4,582**	**1,562**	**152**	**32**
- of which: exposures sold not derecognised	*105*	*28*	*221*	*116*	*35*	*4*

The "other increases" mainly include the collections of loans derecognised in full (through "recoveries on repayments") and increases in the balances of allowances in foreign currency due to changes in the exchange rate.
The "other decreases" mainly include the portfolio of loans classified as "bad loans" and "unlikely to pay" sold during the year. This caption also includes the collections of overdue interest applied in previous years, losses on disposal not covered by the allowance, the decrease in allowances in foreign currency due to changes in the exchange rate and the reduction in the allowances for adjustment due to the passing of time.

A.2. Classification of exposures based on external and internal ratings

A.2.1. Prudential Consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees given by external rating classes (gross amounts)

The Intesa Sanpaolo Group uses the ratings supplied by the following external rating agencies for portfolios subject to reporting: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings and DBRS Morningstar. These agencies are valid for all Group banks.
In compliance with the regulations, if there are two ratings for the same customer, the most prudential of the two is used, when three ratings are available, the middle rating is adopted, and when all ratings are available, the second-best is taken.

(millions of euro)

Exposures	EXTERNAL RATING CLASSES						UNRATED	TOTAL
	class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**23,118**	**27,833**	**191,543**	**9,758**	**6,140**	**510**	**421,664**	**680,566**
- Stage 1	23,103	25,860	190,032	8,954	5,450	183	350,243	603,825
- Stage 2	15	1,973	1,511	802	466	130	56,146	61,043
- Stage 3	-	-	-	-	224	197	14,689	15,110
- Purchased or originated credit-impaired	-	-	-	2	-	-	586	588
B.Financial assets measured at fair value through other comprehensive income	**19,057**	**13,997**	**22,543**	**2,238**	**3,000**	**127**	**3,443**	**64,405**
- Stage 1	19,031	13,975	22,504	2,189	2,979	99	3,363	64,140
- Stage 2	26	22	39	49	21	14	59	230
- Stage 3	-	-	-	-	-	14	21	35
- Purchased or originated credit-impaired	-	-	-	-	-	-	-	-
C. Non-current financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**4,504**	**4,504**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	4,408	4,408
- Purchased or originated credit-impaired	-	-	-	-	-	-	96	96
Total (A+B+C)	**42,175**	**41,830**	**214,086**	**11,996**	**9,140**	**637**	**429,611**	**749,475**
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	16,141	27,986	50,760	14,046	2,815	101	153,160	265,009
- Stage 2	20	298	1,076	924	334	73	19,472	22,197
- Stage 3	-	-	-	-	43	5	1,476	1,524
- Purchased or originated credit-impaired	-	-	-	-	-	-	7	7
Total (D)	**16,161**	**28,284**	**51,836**	**14,970**	**3,192**	**179**	**174,115**	**288,737**
Total (A+B+C+D)	**58,336**	**70,114**	**265,922**	**26,966**	**12,332**	**816**	**603,726**	**1,038,212**

The following tables show the mapping of risk classes and the external ratings.

Mapping of long-term ratings issued by external rating agencies

Long-term ratings for exposures to: central governments and central banks, supervised issuers, public-sector entities, local authorities, multilateral development banks, enterprises and other parties

	ECAI	
	Moody's	**Fitch Standard & Poor's DBRS Morningstar**
Credit quality step		
1	from Aaa to Aa3	from AAA to AA-
2	from A1 to A3	from A+ to A-
3	from Baa1 to Baa3	from BBB+ to BBB-
4	from Ba1 to Ba3	from BB+ to BB-
5	from B1 to B3	from B+ to B-
6	Caa1 and lower	CCC+ and lower

Short-term ratings for exposures to supervised issuers and enterprises

	ECAI			
	Moody's	Fitch	Standard & Poor's	DBRS Morningstar
Credit quality step				
1	P -1	F1 +, F1	A -1 + , A -1	R -1
2	P -2	F2	A -2	R -2
3	P -3	F3	A -3	R -3
from 4 to 6	NP	lower than F3	lower than A -3	R-4 R-5

Ratings for exposures to UCI

	ECAI		
	Moody's	Fitch DBRS Morningstar	Standard & Poor's
Credit quality step			
1	from Aaa to Aa3	from AAA to AA-	from AAA m/f to AA - m/f
2	from A1 to A3	from A+ to A-	from A + m/f to A - m/f
3 and 4	from Baa1 to Ba3	from BBB+ to BB-	from BBB + m/f to BB - m/f
5 and 6	B1 and lower	B+ and lower	B + m/f and lower

Standardised approach - Long-term ratings for exposures to securitisations

	ECAI		
	Moody's	DBRS Morningstar	Fitch Standard & Poor's
Credit quality step			
1	from Aaa to Aa3	from AAA to AAL	from AAA to AA-
2	from A1 to A3	from AH to AL	from A+ to A-
3	from Baa1 to Baa3	from BBBH to BBBL	from BBB+ to BBB-
4	from Baa1 to Ba3	from BBH to BBL	from BB+ to BB-
5	B1 and lower	BH and lower	B+ and lower

Standardised approach - Short-term ratings for exposures to securitisations

	ECAI			
	Moody's	Fitch	DBRS Morningstar	Standard & Poor's
Credit quality step				
1	P -1	F 1 +, F 1	R-1 (high), R-1 (middle), R-1 (low)	A -1 + , A -1
2	P -2	F2	R-2 (high), R-2 (middle), R-2 (low)	A -2
3	P -3	F3	R-3	A -3
from 4 to 6	NP	lower than F3	-	lower than A -3

IRB approach - Long-term ratings for exposures to securitisations

	ECAI		
	Moody's	**DBRS Morningstar**	**Fitch Standard & Poor's**
Credit quality step			
1	Aaa	AAA	AAA
2	Aa	AA	AA
3	A1	AH	A+
4	A2	A	A
5	A3	AL	A-
6	Baa1	BBBH	BBB+
7	Baa2	BBBH	BBB
8	Baa3	BBBL	BBB-
9	Ba1	BBH	BB+
10	Ba2	BB	BB
11	Ba3	BBL	BB-
12	lower than Ba3	lower than BBL	lower than BB-

IRB approach - Short-term ratings for exposures to securitisations

	ECAI			
	Moody's	**Fitch**	**DBRS Morningstar**	**Standard & Poor's**
Credit quality step				
1	P -1	F 1 +, F 1	R-1 (high), R-1 (middle), R-1 (low)	A -1 + , A -1
2	P -2	F2	R-2 (high), R-2 (middle), R-2 (low)	A -2
3	P -3	F3	R-3	A -3
All other credit quality steps	lower than P-3	lower than F3	All other ratings	lower than A -3

A.2.2. Prudential Consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees given by internal rating classes (gross amounts)

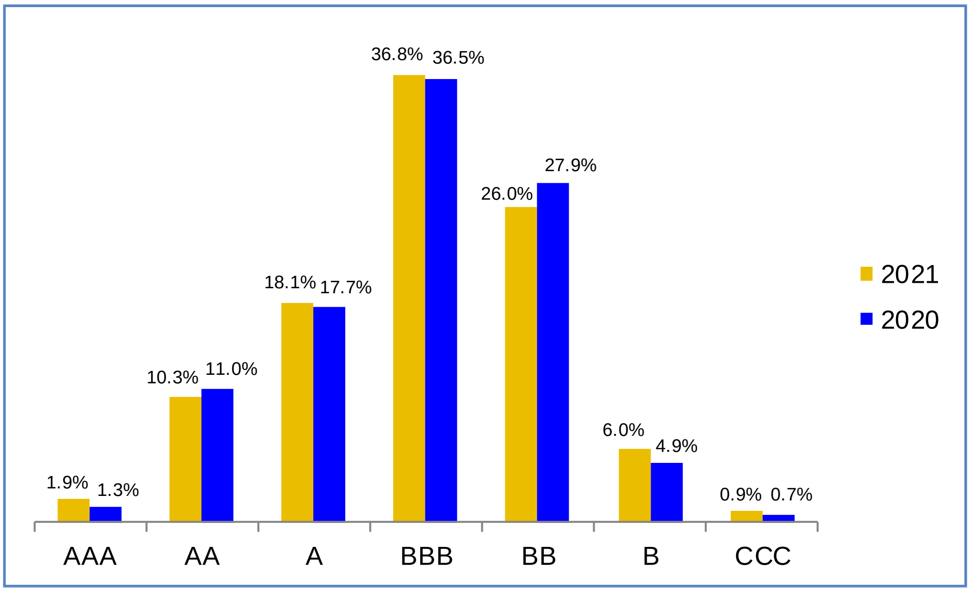
As indicated above in the paragraph entitled “Basel 3 Regulations”, the Intesa Sanpaolo Group has a set of ratings for the various operating segments of the counterparties (Corporate, Retail SME, Retail, Public Sector Entities and Banks).
The breakdown of exposures by internal rating classes shown in the following table is based on all ratings available in the credit risk management and control system, in addition to ratings for validated models. These ratings include credit ratings assigned by external agencies for counterparties in customer segments for which an internal model is not available.
Unrated exposures account for 6.5% of all exposures to performing counterparties and refer to customer portfolios for which a rating model is not available, to counterparties for which the roll-out of internal models is still underway (mainly international subsidiaries), as well as to Group companies whose mission is not related to credit and loans, which have been integrated into the credit risk management system, or to marginal exposures.

When unrated counterparties and non-performing loans are excluded, there is a high concentration of investment grade classes (classes 1, 2 and 3, representing ratings between AAA and BBB-) at 77% of the total, whilst 18.1% fall within the BB+/BB range (class 4) and 4.9% fall under higher risk classes (of which 0.5% are below B-).

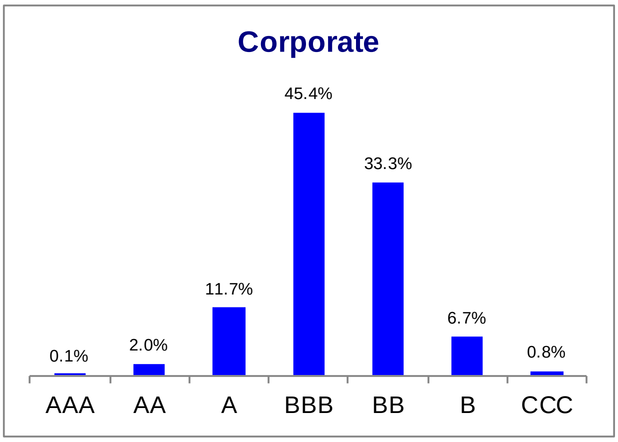
(millions of euro)

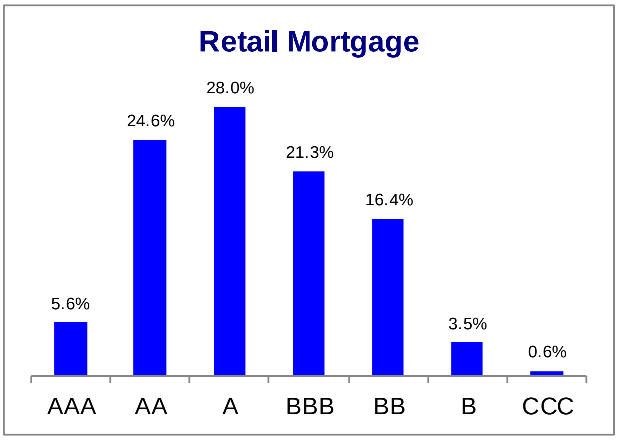
Exposures	Internal rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortized cost	**75,560**	**97,416**	**300,712**	**110,208**	**29,410**	**5,771**	**61,489**	**680,566**
- Stage 1	75,148	95,987	290,154	87,315	15,202	949	39,070	603,825
- Stage 2	412	1,428	10,546	22,858	13,394	3,266	9,139	61,043
- Stage 3	-	-	4	2	781	1,531	12,792	15,110
- Purchased or originated credit-impaired	-	1	8	33	33	25	488	588
B. Financial assets measured at fair value through other comprehensive income	**16,974**	**14,855**	**20,164**	**3,245**	**2,759**	**51**	**6,357**	**64,405**
- Stage 1	16,968	14,814	20,127	3,202	2,741	41	6,247	64,140
- Stage 2	6	41	37	43	18	10	75	230
- Stage 3	-	-	-	-	-	-	35	35
- Purchased or originated credit-impaired	-	-	-	-	-	-	-	-
C. Non-current financial assets held for sale	**-**	**-**	**-**	**-**	**63**	**335**	**4,106**	**4,504**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	63	334	4,011	4,408
- Purchased or originated credit-impaired	-	-	-	-	-	1	95	96
Total (A+B+C)	**92,534**	**112,271**	**320,876**	**113,453**	**32,232**	**6,157**	**71,952**	**749,475**
D. Commitments and financial guarantees given								
- Stage 1	29,513	59,998	112,621	49,158	6,369	414	6,936	265,009
- Stage 2	84	508	2,977	9,830	3,418	502	4,878	22,197
- Stage 3	-	-	-	1	93	216	1,214	1,524
- Purchased or originated credit-impaired	-	-	-	-	-	-	7	7
Total (D)	**29,597**	**60,506**	**115,598**	**58,989**	**9,880**	**1,132**	**13,035**	**288,737**
Total (A+B+C+D)	**122,131**	**172,777**	**436,474**	**172,442**	**42,112**	**7,289**	**84,987**	**1,038,212**

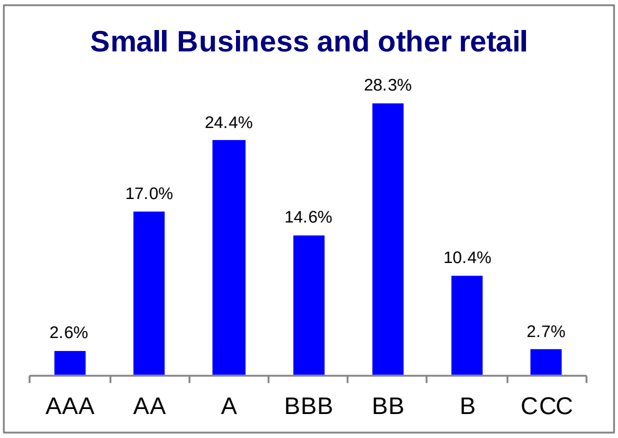
In addition to the tables required by the regulations, the rating allocation for performing loans to customers attributable to the main Group banks is shown below.
As at 31 December 2021, performing loans to customers assigned an individual rating internally or by an external agency accounted for 95% of the loans of the main Group banks.

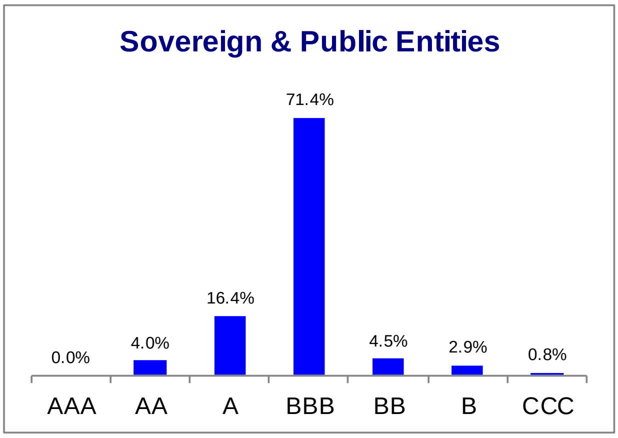


The allocation shows a high level of investment grade exposures (from AAA to BBB inclusive), at 67.1%, a slight improvement compared to the previous year (66.6%).
Movements between rating classes are mainly caused by changes in risk parameters as a result of the update of the models.
The breakdown of the following portfolios by rating is presented below: Corporate, Retail Mortgage (residential mortgages for individuals), Small Business and other retail, Sovereign & Public Entities.









Investment grade positions account for 59.2%, 79.5%, 58.6% and 91.8% of the above portfolios, respectively.

A.3. Breakdown of guaranteed credit exposures by type of guarantee

A.3.1. Prudential Consolidation – Guaranteed on- and off-balance sheet credit exposures to banks

(millions of euro)

	Gross exposure	Net exposures	Collaterals (*) (1)				Personal guarantees (*) (2)	
							Credit derivatives	
			Real estate assets - mortgages	Real estate assets - finance leases	Securities	Other	CLN	Other derivatives
								Central counterparties
1.Guaranteed on-balance sheet credit exposures:	**10,030**	**10,030**	**-**	**5**	**9,526**	**-**	**-**	**-**
1.1 totally guaranteed	9,528	9,528	-	5	9,294	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	502	502	-	-	232	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**10,542**	**10,542**	**-**	**-**	**5,842**	**2,598**	**-**	**-**
2.1 totally guaranteed	8,337	8,337	-	-	5,811	1,372	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	2,205	2,205	-	-	31	1,226	-	-
- of which non-performing	-	-	-	-	-	-	-	-

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*) (2)							Total
	Credit derivatives			Commitments				(1)+(2)
	Other derivatives			Public Administration	Banks	Other financial companies	Other counterparties	
	Banks	Other financial companies	Other counterparties					
1.Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**57**	**49**	**78**	**63**	**9,778**
1.1 totally guaranteed	-	-	-	4	49	-	63	9,415
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	-	-	-	53	-	78	-	363
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**91**	**51**	**-**	**85**	**8,667**
2.1 totally guaranteed	-	-	-	80	46	-	47	7,356
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	-	-	-	11	5	-	38	1,311
- of which non-performing	-	-	-	-	-	-	-	-

(*) Fair value of the guarantee or, if difficult to determine, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

A.3.2. Prudential Consolidation - Guaranteed on- and off-balance sheet credit exposures to customers

(millions of euro)

	Gross exposure	Net exposure	Collateral (*) (1)				Personal guarantees (*) (2)	
							Credit derivatives	
			Real estate assets - mortgages	Real estate assets - finance leases	Securities	Other	CLN	Other derivatives
								Central counterparties
1. Guaranteed on-balance sheet credit exposures:	**329,612**	**320,597**	**163,354**	**9,290**	**29,249**	**12,343**	**-**	**-**
1.1 totally guaranteed	268,762	261,242	160,432	9,036	28,865	9,621	-	-
- of which non-performing	*11,949*	*5,846*	*3,785*	*713*	*30*	*176*	-	-
1.2 partly guaranteed	60,850	59,355	2,922	254	384	2,722	-	-
- of which non-performing	*2,097*	*914*	*361*	*96*	*29*	*25*	-	-
2. Guaranteed off-balance sheet credit exposures:	**49,595**	**49,489**	**2,329**	**18**	**12,150**	**2,244**	**-**	**-**
2.1 totally guaranteed	39,959	39,883	1,745	7	11,673	1,827	-	-
- of which non-performing	*336*	*299*	*62*	-	*4*	*5*	-	-
2.2. partly guaranteed	9,636	9,606	584	11	477	417	-	-
- of which non-performing	*128*	*110*	*25*	-	-	*15*	-	-

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*) (2)							Total
	Credit derivatives			Commitments				
	Other derivatives			Public administration	Banks	Other financial companies	Other counterparties	(1)+(2)
	Banks	Other financial companies	Other counterparties					
1. Guaranteed on-balance sheet credit exposures	**45**	**-**	**-**	**53,193**	**612**	**2,024**	**26,091**	**296,201**
1.1 totally guaranteed	-	-	-	26,963	239	1,377	19,921	256,454
- of which non-performing	-	-	-	*351*	-	*74*	*637*	*5,766*
1.2 partly guaranteed	45	-	-	26,230	373	647	6,170	39,747
- of which non-performing	-	-	-	*107*	-	*10*	*89*	*717*
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**2,818**	**129**	**1,416**	**24,306**	**45,410**
2.1 totally guaranteed	-	-	-	1,934	101	1,192	20,761	39,240
- of which non-performing	-	-	-	*45*	-	*3*	*177*	*296*
2.2. partly guaranteed	-	-	-	884	28	224	3,545	6,170
- of which non-performing	-	-	-	*4*	-	-	*27*	*71*

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

A.4. Prudential consolidation – Financial assets and non-financial assets resulting from the enforcement of guarantees

(millions of euro)

	Derecognised credit exposure	Gross amount	Total adjustments	Book value	
					of which obtained during the year
A. Property and equipment	**359**	**399**	**-49**	**350**	**26**
A.1 Used in operations	2	2	-	2	-
A.2. Investment	144	143	-5	138	8
A.3 Inventories	213	254	-44	210	18
B. Equities and debt securities	**372**	**372**	**-147**	**225**	**9**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets held for sale and discontinued operations	**4**	**4**	**-**	**4**	**1**
D.1 Property and equipment	4	4	-	4	1
D.2. Other assets	-	-	-	-	-
Total 31.12.2021	**735**	**775**	**-196**	**579**	**36**
Total 31.12.2020	**731**	**797**	**-196**	**601**	**160**

For the Group, the assets seized (book value) are mainly represented by:

- Property and equipment used in operations: buildings (2 million euro);
- Investment property: buildings (100 million euro); land (38 million euro);
- Property and equipment – Inventories: buildings (191 million euro), land (18 million euro); other (1 million euro);
- Equities and debt securities:
  - equity investments of 46 million euro (46 million euro relating to the equity investment in Risanamento);
  - financial assets mandatorily measured at fair value of 116 million euro;
  - financial assets measured at fair value through other comprehensive income of 63 million euro.

  These are financial assets not previously provided by the borrower as security for pre-existing loans, but acquired under bilateral agreements with the borrower, following which the Group has derecognised the credit exposure;
- Non-current assets held for sale and discontinued operations: buildings (4 million euro).

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1. Prudential Consolidation - Breakdown by sector of on- and off-balance sheet credit exposures to customers

(millions of euro)

Exposures/Counterparts	Public administration		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures						
A.1 Bad loans	126	-115	29	-153	-	-
- of which: forborne exposures	-	-	*10*	*-76*	-	-
A.2 Unlikely to pay	257	-62	202	-200	-	-
- of which: forborne exposures	*29*	*-39*	*38*	*-37*	-	-
A.3 Non-performing past due exposures	1	-	97	-25	-	-
- of which: forborne exposures	-	-	*79*	*-21*	-	-
A.4 Performing exposures	115,179	-116	69,268	-168	1,665	-
- of which: forborne exposures	*123*	*-5*	*260*	*-5*	-	-
Total (A)	**115,563**	**-293**	**69,596**	**-546**	**1,665**	**-**
B. Off-balance sheet exposures						
B.1 Non-performing exposures	45	-2	43	-2	-	-
B.2 Performing exposures	39,594	-6	55,110	-28	8,407	-
Total (B)	**39,639**	**-8**	**55,153**	**-30**	**8,407**	**-**
Total (A+B) 31.12.2021	**155,202**	**-301**	**124,749**	**-576**	**10,072**	**-**
Total (A+B) 31.12.2020	**153,444**	**-244**	**123,693**	**-655**	**10,268**	**-1**

(millions of euro)

Exposures/Counterparts	Non-financial companies		Households	
	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures				
A.1 Bad loans	1,687	-5,047	722	-1,582
- of which: forborne exposures	*408*	*-1,000*	*137*	*-218*
A.2 Unlikely to pay	3,341	-3,497	1,533	-823
- of which: forborne exposures	*1,764*	*-1,210*	*759*	*-276*
A.3 Non-performing past due exposures	107	-22	417	-105
- of which: forborne exposures	*23*	*-4*	*35*	*-7*
A.4 Performing exposures	221,968	-1,641	174,497	-662
- of which: forborne exposures	*5,914*	*-437*	*1,806*	*-66*
Total (A)	**227,103**	**-10,207**	**177,169**	**-3,172**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	1,138	-215	48	-14
B.2 Performing exposures	216,141	-160	16,081	-19
Total (B)	**217,279**	**-375**	**16,129**	**-33**
Total (A+B) 31.12.2021	**444,382**	**-10,582**	**193,298**	**-3,205**
Total (A+B) 31.12.2020	**452,389**	**-12,472**	**199,700**	**-3,921**

B.2. Prudential Consolidation - Breakdown by geographical area of on- and off-balance sheet credit exposures to customers

(millions of euro)

Exposure/Geographical areas	Italy		Other european countries	
	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures				
A.1 Bad loans	2,401	-6,301	160	-479
A.2 Unlikely to pay	4,646	-4,202	344	-225
A.3 Non-performing past due exposures	551	-107	58	-38
A.4 Performing exposures	403,311	-1,909	123,932	-556
Total (A)	**410,909**	**-12,519**	**124,494**	**-1,298**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	1,166	-178	49	-51
B.2 Performing exposures	173,500	-141	107,364	-59
Total (B)	**174,666**	**-319**	**107,413**	**-110**
Total (A+B) 31.12.2021	**585,575**	**-12,838**	**231,907**	**-1,408**
Total (A+B) 31.12.2020	**637,291**	**-15,308**	**210,600**	**-1,514**

(millions of euro)

Exposure/Geographical areas	America		Asia		Rest of the world	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures						
A.1 Bad loans	-	-52	-	-2	3	-63
A.2 Unlikely to pay	21	-53	65	-37	257	-65
A.3 Non-performing past due exposures	-	-	-	-	13	-7
A.4 Performing exposures	26,586	-40	16,627	-22	10,456	-60
Total (A)	**26,607**	**-145**	**16,692**	**-61**	**10,729**	**-195**
B. Off-balance sheet exposures						
B.1 Non-performing exposures	12	-	2	-	45	-4
B.2 Performing exposures	29,931	-3	12,393	-3	3,738	-7
Total (B)	**29,943**	**-3**	**12,395**	**-3**	**3,783**	**-11**
Total (A+B) 31.12.2021	**56,550**	**-148**	**29,087**	**-64**	**14,512**	**-206**
Total (A+B) 31.12.2020	**47,935**	**-218**	**22,497**	**-80**	**10,903**	**-172**

B.2.Bis Prudential consolidation – Breakdown of relations with customers resident in Italy by geographical area

(millions of euro)

Exposure/Geographical areas	North West		North East		Centre		South and islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures								
A.1 Bad loans	703	-1,966	435	-1,220	584	-1,483	679	-1,632
A.2 Unlikely to pay	1,826	-1,867	735	-656	1,179	-995	906	-684
A.3 Non-performing past due exposures	239	-50	63	-12	107	-19	142	-26
A.4 Performing exposures	140,495	-795	71,155	-325	134,047	-417	57,614	-372
Total A	**143,263**	**-4,678**	**72,388**	**-2,213**	**135,917**	**-2,914**	**59,341**	**-2,714**
B. Off-balance sheet exposures								
B.1 Non-performing exposures	470	-52	332	-48	247	-66	117	-12
B.2 Performing exposures	71,288	-69	32,029	-29	57,291	-26	12,892	-17
Total B	**71,758**	**-121**	**32,361**	**-77**	**57,538**	**-92**	**13,009**	**-29**
Total (A+B) 31.12.2021	**215,021**	**-4,799**	**104,749**	**-2,290**	**193,455**	**-3,006**	**72,350**	**-2,743**
Total (A+B) 31.12.2020	**247,198**	**-5,616**	**108,333**	**-2,741**	**207,399**	**-3,750**	**74,361**	**-3,201**

B.3. Prudential Consolidation - Breakdown by geographical area of on- and off-balance sheet credit exposures to banks

(millions of euro)

Exposures / Geographical Area		Italy		Other european countries	
		Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures					
A.1 Bad loans		-	-	-	-1
A.2 Unlikely to pay		-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-
A.4 Performing exposures		127,445	-4	42,213	-10
Total (A)		**127,445**	**-4**	**42,213**	**-11**
B. Off-balance sheet exposures					
B.1 Non-performing exposures		-	-	-	-
B.2 Performing exposures		8,688	-	37,909	-
Total (B)		**8,688**	**-**	**37,909**	**-**
Total (A+B)	**31.12.2021**	**136,133**	**-4**	**80,122**	**-11**
Total (A+B)	**31.12.2020**	**86,330**	**-9**	**71,866**	**-19**

(millions of euro)

Exposures / Geographical Area		America		Asia		Rest of the world	
		Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures							
A.1 Bad loans		-	-	-	-3	-	-
A.2 Unlikely to pay		52	-13	-	-	1	-
A.3 Non-performing past due exposures		-	-	-	-	-	-
A.4 Performing exposures		5,508	-1	3,196	-1	2,964	-9
Total (A)		**5,560**	**-14**	**3,196**	**-4**	**2,965**	**-9**
B. Off-balance sheet exposures							
B.1 Non-performing exposures		14	-	-	-	10	-
B.2 Performing exposures		6,014	-	9,897	-	2,517	-1
Total (B)		**6,028**	**-**	**9,897**	**-**	**2,527**	**-1**
Total (A+B)	**31.12.2021**	**11,588**	**-14**	**13,093**	**-4**	**5,492**	**-10**
Total (A+B)	**31.12.2020**	**8,288**	**-16**	**11,615**	**-8**	**4,198**	**-7**

B.3.Bis Prudential consolidation – Breakdown of relations with banks resident in Italy by geographical area

(millions of euro)

Exposure/Geographical areas	NORTH WEST		NORTH EAST		CENTRE		SOUTH AND ISLANDS	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	3,410	-3	625	-	123,402	-1	8	-
Total A	**3,410**	**-3**	**625**	**-**	**123,402**	**-1**	**8**	**-**
B. Off-balance sheet exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	5,559	-	849	-	2,083	-	197	-
Total B	**5,559**	**-**	**849**	**-**	**2,083**	**-**	**197**	**-**
Total (A+B) 31.12.2021	**8,969**	**-3**	**1,474**	**-**	**125,485**	**-1**	**205**	**-**
Total (A+B) 31.12.2020	**10,165**	**-4**	**1,341**	**-**	**74,602**	**-5**	**222**	**-**

B.4 Large exposures

Large exposures	
a) Book value (millions of euro)	295,716
b) Weighted value (millions of euro)	23,602
b) Number	9

Based on regulatory provisions, the number of large exposures presented in the table was determined by the reference to unweighted “exposures” in excess of 10% of Tier 1 Capital as defined by Regulation (EU) 876/2019 (CRR2) and Regulation (EU) 575/2013 (CRR). The “exposures” are defined as the sum of on-balance sheet assets at risk and off-balance sheet transactions (excluding those deducted from Tier 1 Capital) with a customer or a group of related customers, without applying weighting factors. These presentation criteria result in the inclusion in the financial statement table for large exposures of entities that – even with a weighting of 0% – present an unweighted exposure in excess of 10% of Tier 1 Capital for the purposes of large risks.
In accordance with the provisions of the EBA document "Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) 575/2013", the supervisory reports have standard methods of presentation of groups of connected clients that (in the case of silos) require exposures to the central governments to be repeated within each corresponding economic group directly controlled by a central government or connected to it by economic dependence.
However, the amounts shown in points a) and b) and the number shown in point c) in the table above include the exposure to the various central governments, to which the Intesa Sanpaolo Group is exposed, only once.

C. SECURITISATIONS

This section does not include securitisations where the originators are Intesa Sanpaolo Group banks and all the liabilities (e.g. ABS securities, loans at the warehousing stage) issued by the vehicle companies are subscribed at the time of issue by one or more Group companies. For a description of these types of transaction, see the section on liquidity risk in Part E of the Notes to the consolidated financial statements.

Qualitative information

The securitisations carried out in 2021 are summarised below:

GARC Securitisations

Within the "GARC" transactions, Intesa Sanpaolo completed four new synthetic securitisations during the year: GARC SME-10, GARC Residential Mortgages-2, GARC High Potential-1 and GARC Corp-4. Specifically:

i) For the GARC SME-10 transaction, the *mezzanine* risk relating to a portfolio of around 1.4 billion euro in loans to around 4,500 businesses in the Corporate and Corporate SME regulatory segments, valued using internal models (Advanced IRB), was transferred to the European Investment Fund (EIF). The initiative, realised in cooperation with the European Investment Bank (EIB), aims to provide new loans totalling 300 million euro to SMEs and Midcaps;
ii) For the GARC Residential Mortgages-2 transaction, the *upper junior* and *mezzanine* risk relating to a portfolio of 1.3 billion euro of mortgage loans to around 13,500 retail customers, valued using internal models (Advanced IRB), was sold to specialist investors;
iii) For the GARC High Potential-1 transaction, the *mezzanine* risk relating to a total portfolio of 0.5 billion euro in loans to around 1,300 businesses in the Corporate and Corporate SME regulatory segment, valued using internal models (Advanced IRB), was sold to specialist investors;
iv) For the GARC CORP-4 transaction, the *junior* risk relating to a total portfolio of around 3.1 billion euro in loans to around 550 businesses in the Corporate and Corporate SME regulatory segment, valued using internal models (Advanced IRB), was sold to specialist investors.

For these transactions, Intesa Sanpaolo holds 5% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations.

The portfolios of the transactions mainly consist of customers operating in Northern Italy.

Tranched Cover Fondo di Garanzia per le PMI Securitisation

During 2021, as part of the operations with the Guarantee Fund for SMEs, the ramp-up was completed for the tranched cover transaction on the junior risk of a portfolio of newly issued loans of around 37.4 million euro to around 230 businesses.
For that synthetic securitisation, Intesa Sanpaolo holds 20% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations.

"Tranched Cover Confcommercio" Securitisation

During the year the ramp-up was completed of a portfolio of around 8.8 million euro of loans to around 100 businesses relating to the "Tranched Cover Confcommercio" synthetic securitisation dedicated to member companies of Confcommercio and local Credit Guarantee Consortia to facilitate access to new credit and provide financial resources in support of trade, tourism and services through investments aimed at growth, technological upgrading and business innovation. Under the transaction, the *mezzanine* risk was transferred to Fin.Promo.Ter. and the *junior* risk is covered by the Guarantee Fund for SMEs.
For this transaction, Intesa Sanpaolo holds 100% of the senior tranches and 20% of the *junior* and *mezzanine* tranches in compliance with the *retention rule* laid down by the supervisory regulations.

Kerdos Securitisation

As part of the de-risking strategy envisaged in the 2018-2021 Business Plan and, specifically, in line with the 2021 de-risking plan approved by the Board of Directors on 18/12/2020, on 15/11/2021 the transaction was completed for the sale through a securitisation of a portfolio of loans mainly classified as "unlikely to pay" (UTP) by Intesa Sanpaolo to Kerdos SPV S.r.l. (SPV). The portfolio sold on 30 April 2021 (cut-off date) had a Gross Book Value (GBV) of around 2 billion euro (accounting GBV before PPA) and the sale price was around 0.7 billion euro, substantially in line with the portfolio's Net Book Value (NBV).

Within the transaction, Prelios S.p.A. acts as master, corporate and special servicer of the securitisation.
The sale was completed in the following steps:

(i) the transfer to the SPV of a portfolio of medium/long-term and short-term non-revolving loans and a portfolio of lease receivables;
(ii) the transfer to a financial intermediary, belonging to the Prelios Group, of all the legal relationships pertaining to the receivables sold and not deriving from leases;
(iii) the transfer to a LeaseCo of the legal relationships arising from the leases pertaining to the debts sold;
(iv) the transfer of the risks and rewards relating to all the existing and future exposures arising from short-term/revolving loan agreements, through a limited-recourse loan (pursuant to Article 7, paragraph 1, letter a) of Law 130/99) granted by the SPV to Intesa Sanpaolo and secured by the assignment of the revolving exposures to the SPV as collateral.

The securitised assets were broken down as follows by geographical area:
- 40.7% North-West;
- 31.1% Centre;
- 14.7% South and Islands;
- 13.5% North-East.

The breakdown of the assigned debtors by economic sector was mainly concentrated in the following sectors:
- “Households” at 20.3%;
- "Construction companies" at 18.9%;
- "Real estate business" at 14.6%;
- “Manufacturing" at 13.3%;
- “Motor vehicle trading and repair” at 10.5%;
- and a residual amount in other economic sectors (Professional Services, Transport and Accommodation).

The SPV financed the acquisition of the portfolio by issuing 4 classes of securities, of which the senior tranche was subscribed entirely by Intesa Sanpaolo, while the mezzanine and junior tranches were subscribed 95% by third party investors and 5% by Intesa Sanpaolo in compliance with the retention rule laid down in the supervisory regulations:
- senior notes of 534.7 million euro, fully subscribed by Intesa Sanpaolo;
- mezzanine notes totalling 171.9 million euro, divided into 76.4 million euro of class B1 notes, of which 3.8 million euro subscribed by Intesa Sanpaolo and the remainder by a third-party investor, and 95.5 million euro of class B2 notes, of which 4.8 million euro subscribed by Intesa Sanpaolo and the remainder by a third-party investor;
- junior notes of 57.3 million euro, of which 2.9 million euro subscribed by Intesa Sanpaolo and the remainder by a third-party investor.

Upon completion of the transaction, Intesa Sanpaolo achieved full accounting and regulatory deconsolidation of the portfolio.

Taking into account the subscription of 100% of the senior notes and 5% of the junior and mezzanine notes in compliance with the retention rule, the variability connected to the cash flows of the underlying portfolio retained by the Group enabled it to establish that the Group has substantially transferred all the risks and rewards of the financial assets transferred, meeting the conditions under point a) of IFRS 9.3.2.6, as a result of which it has “derecognised the financial asset and recognised separately as assets or liabilities any rights and obligations originated from or maintained with the transfer”.

In this regard, the notes subscribed by Intesa Sanpaolo, due to the business model used and the look-through test carried out, have been classified as follows:
- senior tranches under securities at amortised cost;
- mezzanine and junior tranches under securities measured at FVTPL.

The transaction was carried out in accordance with the Group’s income statement and balance sheet targets and forecasts which have already been disclosed to the market for the 2018-2021 Business Plan.

Portland Securitisation

As part of the de-risking strategy envisaged in the 2018-2021 Business Plan and, specifically, in line with the 2021 de-risking plan approved by the Board of Directors on 18/12/2020, on 29/11/2021 the transaction was completed for the sale through a securitisation of a portfolio of bad loans mainly related to leases by Intesa Sanpaolo Provis and UBI Leasing to Portland SPV S.r.l. (SPV). The portfolio sold consisted of lease-related bad loans mainly from the Corporate SME segment with a Gross Book Value (GBV) of around 1 billion euro (accounting GBV before PPA) as at 31 December 2020 (cut off date) and sold at a price of around 0.2 billion euro, substantially in line with the portfolio’s Net Book Value (NBV).

Within the transaction, Intrum Italy S.p.A. acts as special servicer of the securitisation.

The sale was completed in the following steps:
(i) the transfer of the loans to the SPV;
(ii) the transfer of the legal relationships arising from the leases pertaining to the loans sold, as well as the ownership of the movable and immovable property subject of those leases to a LeaseCo named Portland LeaseCo S.r.l.

The securitised assets were broken down as follows by geographical area:
- 40.6% North-West;
- 14.4% North-East;
- 30.8% Centre;
- 14.1% South and Islands;
- 0.1% Outside Italy.

The breakdown of the assigned debtors by economic sector was mainly concentrated in the Production Companies sector at 84%, while the remaining 16% was split across the other economic sectors.

The SPV financed the acquisition of the portfolio by issuing 3 classes of notes. The senior, mezzanine and junior tranches were subscribed 95% by third parties and 5% by Intesa Sanpaolo in compliance with the retention rule laid down in the supervisory regulations:
- senior notes of 143.2 million euro, of which 7.2 million euro subscribed by Intesa Sanpaolo and the remainder by third parties;
- mezzanine notes of 75.3 million euro, of which 3.8 million euro subscribed by Intesa Sanpaolo and the remainder by third parties;

- junior notes of 4.6 million euro, of which 0.2 million euro subscribed by Intesa Sanpaolo and the remainder by third parties.

Upon completion of the transaction, Intesa Sanpaolo achieved full accounting and regulatory deconsolidation of the portfolio.

Taking into account the retention of 5% of the senior, mezzanine and junior notes, the variability connected to the cash flows of the underlying portfolio retained by the Group enabled it to establish that the Group has substantially transferred all the risks and rewards of the financial assets transferred, meeting the conditions under point a) of IFRS 9.3.2.6, as a result of which it has “derecognised the financial asset and recognised separately as assets or liabilities any rights and obligations originated from or maintained with the transfer”.

In this regard, the notes subscribed by Intesa Sanpaolo, due to the business model used and the look-through test carried out, have been classified as follows:
- Senior tranches under securities at amortised cost;
- Mezzanine and Junior tranches under securities measured at FVTPL.

The transaction was carried out in accordance with the Group’s income statement and balance sheet targets and forecasts which have already been disclosed to the market for the 2018-2021 Business Plan.

Grogu Securitisation

Following the acquisition of the UBI Group, Intesa Sanpaolo transferred a business line to BPER, which included a portfolio of bad loans. Intesa Sanpaolo and BPER then jointly initiated a sale involving the deconsolidation of a portfolio of bad loans, mainly in the “Corporate SME” and “Retail” segments, through a multi-originator and multi-servicer securitisation to a securitisation vehicle (below “Grogu SPV s.r.l.” or the “SPV”) and with a subsequent application for the issuance of a “GACS” government guarantee for the holders of the senior notes issued under transaction, once those senior notes had obtained an “investment grade” rating of no less than BBB or equivalent, as envisaged by Italian Law no. 49/2016.

The portfolio owned by Intesa Sanpaolo had a GBV (Gross Book Value) of around 1.4 billion euro (accounting GBV before PPA) as at 31 May 2021 (cut-off date).

Within the transaction, Intrum Italy S.p.A. and Prelios Credit Servicing S.p.A. act as special servicers.

The securitised assets were broken down as follows by geographical area:
- 38.1% North-West;
- 36.9% Centre;
- 16.5% South and Islands;
- 8.5% North-East.

The breakdown of the assigned debtors by economic sector was mainly concentrated in the following sectors:
- "Construction companies" at 28.4%;
- “Households” at 24.8%;
- "Real estate business" at 14.0%;
- “Manufacturing" at 12.1%;
- “Motor vehicle trading and repair” at 9.2%;
- and a residual amount in other economic sectors (Professional Services, Transport and Accommodation).

The SPV financed the acquisition of the portfolio by issuing 3 classes of securities:
- senior notes of 460 million euro, held 100% by Intesa Sanpaolo and BPER;
- mezzanine notes of 37 million euro, held 5% by Intesa Sanpaolo and BPER and the remainder by a third-party investor;
- junior notes of 3 million euro, held 5% by Intesa Sanpaolo and BPER and the remainder by a third-party investor.

The subscription percentages comply with the retention rule laid down in supervisory regulations as a percentage of the transferred portfolio. Taking into account the retention, the variability connected to the cash flows of the underlying portfolio retained by the Group enabled it to establish that the Group has substantially transferred all the risks and rewards of the financial assets transferred, meeting the conditions under point a) of IFRS 9.3.2.6, as a result of which it has “derecognised the financial asset and recognised separately as assets or liabilities any rights and obligations originated from or maintained with the transfer”.

In this regard, the notes subscribed by Intesa Sanpaolo, due to the business model used and the look-through test carried out, have been classified as follows:
- Senior tranches under securities at amortised cost;
- Mezzanine and Junior tranches under securities measured at FVTPL.

On 20 December 2021, following the sale of 95% of the mezzanine and junior notes to third party investors, Intesa Sanpaolo achieved full accounting and regulatory deconsolidation of the above-mentioned portfolio.

On 24 December 2021, the request was made for the issuance of the “GACS” government guarantee.

The transaction was carried out in accordance with the Group’s income statement and balance sheet targets and forecasts which have already been disclosed to the market for the 2018-2021 Business Plan and specifically in the 2021 de-risking plan approved by the Board of Directors on 18 December 2020.

Quantitative information

C.1. Prudential consolidation - Breakdown of exposures deriving from the main “originated” securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised	**3,772**	**-2**	**46**	**-3**	**16**	**-14**
– Loans to businesses (including SMEs) (*)	3,109	-1	40	-1	15	-13
– Residential mortgage loans (*)	655	-1	2	-2	-	-1
– Leases (*)	7	-	4	-	-	-
– Consumer credit	1	-	-	-	1	-
B. Partly derecognised	-	-	-	-	-	-
C. Not derecognised	**18,771**	**-46**	**198**	**-6**	**439**	**-10**
– Loans to businesses (including SMEs) (**) (***)	15,976	-42	66	-2	199	-1
– Residential mortgage loans (***)	1,813	-4	132	-4	234	-9
– Leases (***)	982	-	-	-	6	-
TOTAL	**22,543**	**-48**	**244**	**-9**	**455**	**-24**

(*) The entire amount refers to non-performing financial assets. (*) “Loans to businesses (including SMEs)” refer to the Savoy, Kerma, Yoda and Sirio securitisations (see the 2018, 2019 and 2020 Consolidated Financial Statements, respectively, for details about the transactions) and the Grogu and Kerdos transactions (described in the paragraph on “Qualitative information” of this Section). “Residential mortgage loans" refer to the Maior and Iseo securitisations (deriving from the business combination with the former UBI Group). “Leases" refer to the Portland securitisation (described in the paragraph on “Qualitative information” of this Section).

(**) The amounts include non-performing financial assets amounting to 27 million euro in senior exposures, 35 million euro in mezzanine exposures and 18 million euro in junior exposures.

(***) The captions also include performing amounts associated with the synthetic securitisations originated within the Intesa Sanpaolo Group.

Off-balance sheet

This type of exposure did not exist as at 31 December 2021.

C.2. Prudential consolidation - Breakdown of exposures deriving from main "third-party" securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Leases	18	-	7	-	7	-
Covered bonds	50	-	45	-	3	-
Commercial mortgage loans	128	3	31	2	-	-
Securitisations	275	-1	-	-	-	-
Trade receivables	232	-	42	-	-	-
Consumer credit	478	-	2	-	-	-
Residential mortgage loans	1,023	-	108	1	-	-
Loans to businesses (including SMEs) (*)	1,323	-	269	-2	5	-
Other assets (**)	7,555	-	-	-	-	-
TOTAL	**11,082**	**2**	**504**	**1**	**15**	**-**

(*) The exposures include non-performing financial assets amounting to 40 million euro in mezzanine exposures and 1 million euro in junior exposures, respectively. The aggregate also includes debt securities issued by the securitisation vehicle set up as part of the sale of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato to Credit Agricole by the National Interbank Deposit Guarantee Fund - Voluntary Scheme, which the Bank participates in. The related junior notes were fully written down.

(**) The amount also includes the Romulus securities for 5,717 million, held by the Banking Group, generally represented among third-party securitisations, as well as loans to the vehicle Duomo Funding Plc for 1,475 million as a result of the use of credit lines. For more information regarding the type of underlying assets, reference is made to Section 4 – Risks of other companies, of this Part E.

Off-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
Duomo ABCP Conduit transactions (*)	-	-	-	-	-	-	(*)	(*)	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

(*) With regard to the transactions carried out through Duomo Funding Plc and funded by ABCP, Intesa Sanpaolo has granted credit lines (amounting to 5,879 million euro in terms of net exposures and around 1 million euro of adjustments) to secure the assets included under "Other assets" in Table C.2 on-balance sheet exposures.

C.3. Prudential consolidation - Stakes in securitisation vehicles

(millions of euro)

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION (a)	ASSETS (b)			LIABILITIES (b)		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Adriano Lease Sec S.r.l. (c)	Conegliano Veneto (TV)	(e)	2,028	-	139	686	-	1,351
Augusto S.r.l. (d)	Milano	(e)	-	-	2	13	-	-
Berica ABS 3 S.r.l. (h)	Vicenza	(e)	(f)	(f)	(f)	(f)	(f)	(f)
Berica ABS 4 S.r.l. (h)	Vicenza	Not consolidated	(f)	(f)	(f)	(f)	(f)	(f)
Brera Sec S.r.l. (c)	Conegliano Veneto (TV)	(e)	19,547	-	845	15,763	-	4,182
Clara Sec S.r.l. (c)	Conegliano Veneto (TV)	(e)	5,494	-	1,928	6,350	-	824
Diocleziano S.r.l. (d)	Milano	(e)	1	-	1	48	-	-
Giada Sec S.r.l. (c)	Conegliano Veneto (TV)	(e)	8,638	-	2,466	6,610	-	3,485
ISP CB Ipotecario S.r.l. (g)	Milano	(e)	15,988	-	5,021		19,921	
ISP CB Pubblico S.r.l. (g)	Milano	(e)	2,084	1,393	1,189		4,567	
ISP OBG S.r.l. (g)	Milano	(e)	47,811	-	8,662		56,381	
UBI Finance S.r.l. (g)	Milano	(e)	8,860	-	1,706		10,549	
UBI SPV Lease 2016 S.r.l. (c)	Milano	(e)	2,305	-	269	1,435	-	1,001

(a) Consolidation method referring to the so-called "prudential" scope.

(b) Figures gross of any intercompany relations.
(c) Self-securitisation vehicle described in Section 1.4 Banking Group - Liquidity Risk, Quantitative Information, paragraph 2 of these Notes to the consolidated financial statements.

(d) The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2020).

(e) Vehicle consolidated at equity.
(f) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.4 of these Notes to the consolidated financial statements.
(g) Vehicle used for the covered bond issue by the Intesa Sanpaolo Group. For more information, see Section D in Part E of these Notes to the consolidated financial statements.

(h) Vehicle deriving from the acquisition of certain assets and liabilities of the former Venetian Banks.

With regard to the securitisations structured by the Intesa Sanpaolo Group on its own assets, including those named Towers, K-Equity, Savoy, Kerma, Yoda, Maior, Iseo, Sirio, Kerdos, Grogu and Portland, in addition to those shown in the table above, other special purpose vehicles were also used that are third-party and independent entities with respect to Intesa Sanpaolo and in which the Group does not hold any investments.

C.4 Prudential consolidation – Unconsolidated securitisation vehicles

The unconsolidated securitisation vehicles include the vehicles in which the Intesa Sanpaolo Group does not hold any stake in the capital and those in which it holds a residual stake. The table below shows the assets, liabilities, costs and revenues of each vehicle used for transactions in which the Group acts as originator.

(millions of euro)

	Berica ABS 4 S.r.l. (*) (**)	BERICA ABS 3 S.r.l. (*)
A. Assets	**278**	**239**
A.1 Loans	278	239
A.2 Securities	-	-
A.3 Other assets	-	-
B. Use of cash and cash equivalents	**13**	**12**
B.1 Deposits with banks	-	-
B.2 Prepayments and accrued income	-	-
B.3 Other	13	12
B Liabilities	**248**	**210**
B.1 Class A Securities issued	4	-
B.2 Class B Securities issued	76	66
B.3 Class C Securities issued	47	-
B.4 Class J Securities issued	95	115
B.5 Other liabilities	26	29
C. Interest expense and other expenses	**9**	**9**
D. Interest income and other revenues	**8**	**7**

(*) The vehicles are used for securitisations involving residential mortgage loans. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards.

(**) Vehicle company which the Intesa Sanpaolo Group has not invested in.

With regard to the unconsolidated structured entities used for securitisations, the Group holds residual stakes in the vehicles Augusto and Diocleziano, consolidated at equity. These vehicles are entities used in securitisations of assets, primarily land and public works financing, of a company subject to joint control sold in previous years.
The Group holds a residual stake in these vehicles. There are no agreements in place which could result in the obligation of the Group to provide financial support to said vehicles. The Intesa Sanpaolo Group controls the companies Romulus Funding Corporation and Duomo Funding Plc (included solely in the scope of consolidation pursuant to IFRS 10), which are used for transactions in which the Intesa Sanpaolo Group acts as sponsor and whose operations are described in Section 4 - Risks of other companies, of this Part E.

C.5. Prudential consolidation - Servicer activities – originated securitisations: collection of securitised loans and repayment of securities issued by the securitisation vehicle

SERVICER	SPECIAL PURPOSE VEHICLE	SECURITISED ASSETS (end-of-period figure) (millions of euro)		COLLECTIONS OF LOANS IN THE YEAR (millions of euro)		PERCENTAGE OF REIMBURSED SECURITIES (period-end figure)					
						Senior		Mezzanine		Junior	
		Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing
Intesa Sanpaolo	Berica ABS 3 S.r.l.	29	210	3	36	0%	100%	0%	30%	0%	0%
Intesa Sanpaolo	Berica ABS 4 S.r.l.	31	247	3	39	0%	99%	0%	0%	0%	0%
Intesa Sanpaolo	Brera Sec S.r.l. (*) (***)	114	19,433	18	2,223	0%	33%	0%	0%	0%	0%
Intesa Sanpaolo	Clara Sec S.r.l. (*) (**)	82	5,412	-	2,078	0%	0%	0%	0%	0%	0%
Intesa Sanpaolo	Giada Sec S.r.l. (*) (**)	36	8,602	4	3,341	0%	0%	0%	0%	0%	0%
Intesa Sanpaolo	UBI SPV LEASE 2016 (*)	81	2,224	10	552	1%	31%	0%	0%	0%	0%
Total		**373**	**36,128**	**38**	**8,269**						

(*) Vehicle used for self-securitisations

(**) Vehicle structured in 2020 for securitisations for which no redemptions took place as at 31 December 2021.

(***) For Brera Sec S.r.l., during 2021 a new self-securitisation was structured, named Brera Sec 3, for which no notes had been redeemed as at 31 December 2021.

C.6. Prudential consolidation – Consolidated securitisation vehicles

There were no transactions that used consolidated securitisation vehicles during 2021.

D. SALES

A. Financial assets sold not fully derecognised

Qualitative information

For a description of the operations shown in tables D.1 and D.3 below, reference is made to the information shown below the relevant tables.

Conversely, for operations in debt securities against medium/long-term repurchase agreements, reference is made to the information in Part B of the Notes to the consolidated financial statements.

Quantitative information

Prudential consolidation - Financial assets sold fully recognised and related financial liabilities: book value

(millions of euro)

	Financial assets sold fully recognised				Related financial liabilities		
	Book value	*of which: securitisations*	*of which: subject to sales contracts with repurchase clauses*	*of which: non-performing*	Book value	*of which: securitisations*	*of which: subject to sales contracts with repurchase clauses*
A. Financial assets held for trading	**647**	**-**	***647***	***X***	**660**	**-**	***660***
1. Debt securities	446	-	*446*	*X*	449	-	*449*
2. Equities	201	-	*201*	*X*	211	-	*211*
3. Loans	-	-	-	*X*	-	-	-
4. Derivatives	-	-	-	*X*	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**8,548**	**-**	***8,548***	**-**	**8,557**	**-**	***8,557***
1. Debt securities	8,548	-	*8,548*	-	8,557	-	*8,557*
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**5,018**	***98***	***4,920***	***10***	**3,329**	***67***	***3,262***
1. Debt securities	4,920	-	*4,920*	-	3,262	-	*3,262*
2. Loans	98	*98*	-	*10*	67	*67*	-
TOTAL 31.12.2021	**14,213**	***98***	***14,115***	***10***	**12,546**	***67***	***12,479***
TOTAL 31.12.2020	**9,185**	***137***	***8,986***	***18***	**8,938**	***97***	***8,788***

The table above does not include covered bond transactions in which the Intesa Sanpaolo Group is both the seller and lender for the vehicle issuing the debt securities.

The operations shown in the table mainly relate to the use of securities held for short and medium/long-term repurchase agreements and loans to customers assigned primarily as part of the K-Equity and Berica securitisations.

Prudential consolidation – Financial assets sold partly recognised and related financial liabilities: book value

These are not present in the Intesa Sanpaolo Group.

Prudential consolidation - Sales with liabilities having recourse exclusively on the assets sold and not fully derecognised: fair value

(millions of euro)

	Fully recognised	Partly recognised	31.12.2021	31.12.2020
A. Financial assets held for trading	**647**	**-**	**647**	**1,075**
1. Debt securities	446	-	446	887
2. Equities	201	-	201	188
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**8,548**	**-**	**8,548**	**5,048**
1. Debt securities	8,548	-	8,548	5,048
2. Equities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	**5,018**	**-**	**5,018**	**3,062**
1. Debt securities	4,920	-	4,920	2,925
2. Loans	98	-	98	137
Total financial assets	**14,213**	**-**	**14,213**	**9,185**
Total related financial liabilities	**12,546**	**-**	**12,546**	**8,886**
Net value 31.12.2021	**1,667**	**-**	**1,667**	**X**
Net value 31.12.2020	**299**	**-**	**X**	**299**

The table above does not include covered bond transactions in which the Intesa Sanpaolo Group is both the seller and lender for the vehicle issuing the debt securities.

B. Financial assets sold fully derecognised with recognition of continuing involvement

This type of exposure did not exist as at 31 December 2021.

C. Financial assets sold and fully derecognised

Qualitative information

Multioriginator sale transactions involving loan portfolios – classified as unlikely to pay in particular – attributable to the sale of loans to a mutual investment fund with the assignment of the units in the fund to the selling intermediaries

At 31 December 2021, the Intesa Sanpaolo Group held units of mutual funds acquired in multioriginator sales of loan portfolios.

In accordance with the provisions of the Communication of the Bank of Italy of 23 December 2019, incorporated into the seventh update to Circular 262, disclosures regarding "*Multioriginator sale transactions involving loan portfolios – classified as unlikely to pay in particular – attributable to the sale of loans to a mutual fund with the assignment of the units in the fund to the selling intermediaries*" are provided below.

Back2Bonis Fund

In implementation of the derisking envisaged in the 2018-2021 Business Plan, in the third quarter of 2020 the Intesa Sanpaolo Group begun the deconsolidation of a portfolio of credit exposures (including real estate assets and contracts) classified as unlikely to pay with real estate underlying held by the Parent Company ISP and the merged UBI Banca, accompanied by their conversion into units of the securities fund called Back2Bonis.

The transaction, the closing of which took place at the end of 2020, took the form for the Bank (inclusive of the transactions undertaken by the merged UBI Banca in 2019 and 2020) of the sale of a portfolio of loans, short-term legal relationships and legal relationships and assets from lease receivables for a total gross amount of 351 million euro and net exposure of 164 million euro, accompanied by the subscription of the units of the Back2Bonis Fund for an amount of 164 million euro, substantially in line with the net value of the loans and receivables sold.

The transaction was completed through: (i) the sale to the securitisation vehicle Ampre S.r.l. of the bank receivables and the lease receivables; (ii) the sale to Ampre LeaseCo S.r.l. of the legal relationships and assets arising from the leases; (iii) the sale of the short-term revolving contracts and the related legal relationships and receivables of ISP, together with the medium/long-term contracts with residual disbursements and the related legal relationships, other than the lease relationships and assets through the fronting bank provided by Banca Finanziaria Internazionale S.p.A.; (iv) the subscription by the Back2Bonis Fund of all the securities issued by the securitisation vehicle; and (v) the acquisition by Intesa Sanpaolo of the units of the Fund in exchange for the loans and receivables sold.

The Back2Bonis fund, established in the form of a closed-end mutual fund whose units can only be subscribed by professional investors, is a multi-originator platform for the management of Real Estate Small & Medium Size loans classified as UTP, deriving from loans and credit lines granted to companies operating in the real estate sector or to real estate funds (including those not fully disbursed/drawn down at the time of sale).

Following the completion of the transfer of the loans and receivables to the platform, ISP had deconsolidated the loans and receivables and recognised the Fund's units in place of those loans and receivables.

The breakdown of the assigned debtors by economic sector was mainly concentrated in the following sectors:

- "Construction companies" at 64.3%;
- "Real estate business" at 17.5%;
- "Financial and insurance business" at 13.2%;
- and a residual amount in other business sectors (Services, Transport and Manufacturing Activities).

The assets of the assigned debtors were broken down as follows by geographical area:

- 70.7% North-West;
- 13.2% North-East;
- 11.9% South and Islands;
- 4.2% Centre.

At 31 December 2021, the Parent Company held a 34.39% stake in the Back2Bonis Fund, classified among investments subject to significant influence, for a book value of 141 million euro. The measurement of the Back2Bonis Fund yielded a negative effect for the year of 17 million euro.

FI.NAV. Fund

In pursuit of the de-risking activities provided for in the 2018-2021 Business Plan, in the fourth quarter of 2018 the Intesa Sanpaolo Group had launched the contribution to the FI.NAV. Fund (a closed-end Italian securities umbrella fund) of a portfolio of non-performing secured and unsecured loans attributable to the shipping sector.

The Fund, reserved for institutional investors, is managed by the asset management company Davy Global Fund Management Limited, not a member of the Intesa Sanpaolo Group, based in Ireland, and is divided into two autonomous sub-funds: FI.NAV. Sub-fund A – Loans that includes the loans transferred by the Intesa Sanpaolo Group, Unicredit and FI.NAV. Sub-fund B - New Finance, that includes the capital of third-party investors to relaunch the "repossessed" ships.

The transaction, formulated in 2018, was closed in 2019 through a sale of receivables without recourse for total gross consideration of 155 million euro and a net exposure of 102 million euro, equal to the sale price, set off against the price of subscription of the Fund units and, therefore, without any effects on the income statement for 2019.
In the first quarter of 2020, a further tranche was sold without recourse for a gross amount of 37 million euro and a net value of 34 million euro, in line with the sale price and, therefore, with no impact on the income statement for 2020.
Pursuant to IFRS 9, for the Intesa Sanpaolo Group the transaction entailed the derecognition of the loans sold since the Fund has become solely responsible for managing them following the sale; the Intesa Sanpaolo Group had therefore derecognised the loans concerned, while recognising the corresponding fair value of the units of the Fund assigned.
The Group companies involved in the transaction were the Parent Company Intesa Sanpaolo and some of its subsidiaries merged in 2019 and 2020 (Cassa di Risparmio in Bologna and Mediocredito, both merged in 2019, and Banca IMI, merged in 2020).

The economic sector of the assigned debtors was mainly concentrated in Transport.
The transferred financial assets are primarily in the South and Islands area.

At 31 December 2021, the Parent Company ISP held a 43.80% stake in the FI.NAV. Fund, classified among investments subject to significant influence, for a book value of 113 million euro. The measurement of the FI.NAV. Fund yielded a negative effect for the year of 19 million euro.

RSCT Fund – Loans Sub-Fund
As part of the derisking envisaged in the 2018-2021 Business Plan, the Intesa Sanpaolo Group had identified the opportunity to transfer assets (loans and securities) relating to non-performing positions to the closed-end RSCT FUND, in exchange for units of the fund. The project was managed by Pillarstone, which had selected a portfolio of industrial and commercial companies with the objective of helping each of them to identify a strategy for maximising the potential for debt recovery, also through injections of new finance.
The transaction took place in May 2020 with the transfer of a portfolio of loans with 18 companies originated by the ISP Group (ISP and Banca IMI, subsequently merged into ISP on 20 July 2020), Unicredit, BPER Banca and Crédit Agricole to the newly established closed-end alternative investment RSCT Fund, managed by Davy Investment Fund Services, an alternative fund manager authorised by the Central Bank of Ireland.
The RSCT Fund is made up of two separate sub-funds: sub-fund A for the management of loans acquired from the selling banks and sub-fund B for the management of the new finance.
The May 2020 sale involved a portfolio of loans, Sirti notes and PS Reti equity instruments for a gross amount of 339 million euro (ISP and Banca IMI) at a net value of 255 million euro, substantially in line with the sale price.
In July 2020, a further sale was completed of a loan position for a gross amount of 6.3 million euro at a value of 4.5 million euro, with the sale price offset against the subscription price of the Fund's units.
In February 2021, a sale was completed of a loan position for a gross amount of 21.3 million euro at a value of 13.9 million euro, with the sale price offset against the subscription price of the Fund's units.
In March 2021, a sale was completed of a loan position deriving from the absorption of UBI Banca for a gross amount of 3.1 million euro and a net exposure of 1.2 million euro, with the concurrent subscription of units of the RSCT Fund for 1.3 million euro, essentially aligned with the net value of the transferred loans.
In June 2021, a further sale was completed of a loan position for a gross amount of 0.4 million euro at a value of 0.1 million euro, with the sale price offset against the subscription price of the Fund's units.
By economic sector, the assigned debtors are 72% concentrated in "Companies that install electrical equipment", 18% in "Amusement and theme parks" and 10% in "Retail sale of footwear and accessories".

The transferred financial assets are primarily in the North-west area.

At 31 December 2021, the Parent Company ISP held a 71.80% stake in the RSCT Fund, classified among investments subject to significant influence, for a book value of 259 million euro. The measurement of the RSCT FI.NAV. Fund yielded a negative effect for the year of 6 million euro.

IDEA CCR Corporate Credit Recovery II Fund - Loans Sub-fund
In 2018, the Intesa Sanpaolo Group (specifically Intesa Sanpaolo and the banks subsequently merged into Intesa Sanpaolo: Cassa di Risparmio del Veneto, Cassa di Risparmio di Firenze, Cassa di Risparmio del Friuli Venezia Giulia, Cassa di Risparmio in Bologna, and Mediocredito) participated in the closed-end Italian fund IDEA CCR Corporate Credit Recovery II - Loans Sub-fund, managed by Dea Capital Alternative Funds S.G.R. S.p.A. and dedicated to the recovery of mid-size Italian companies in situations of financial tension but with solid industrial fundamentals. The transaction, which was completed in 2018, was undertaken by contributing non-performing loans with a nominal value of 59 million euro and a net exposure to the sale price of 39.2 million euro, with the price of sale offset against the subscription price, of equal amount, of the units of the IDEA CCR Corporate Credit Recovery II Fund - Loans Sub-Fund.

The Intesa Sanpaolo Group's investment in the IDEA CCR Fund was further increased as a result of:
- the merger of UBI Banca, which had sold loan positions to the IDEA CCR Corporate Credit Recovery II Fund, Loans Sub-fund, managed by Dea Capital Alternative Funds SGR, in 2020, 2019, 2018 and 2017 for a total gross amount of 231 million euro and a net exposure of 144 million euro, with concurrent subscription of the units of the RSCT Fund for an amount of 148 million euro, with the price of sale offset against the price of subscription of the Fund units.
- the investment in the Fund completed by UBI Leasing in 2019, undertaken by contributing non-performing loans with a nominal value of 5.2 million euro and a net exposure to the sale price of 3.4 million euro, with the price of sale offset against the subscription price, of equal amount, of the units of the IDEA CCR Corporate Credit Recovery II Fund - Loans Sub-Fund.

The breakdown of the assigned debtors by economic sector was mainly concentrated in the following sectors:
- "Real estate activities" at around 32%;
- "Transport and storage" at 28%;
- "Professional, scientific and technical activities" at 10%;
- "Metallurgy and metal product manufacturing" at 9.4%;
- "Car and other vehicle production" at 5.6%;
- and a residual amount in other business sectors (Services, Transport and Manufacturing Activities).

The assets of the assigned debtors were broken down as follows by geographical area:
- 28.8% North-West;
- 11.8% North-East;
- 31.2% South and Islands;
- 23.8% Centre;
- 4.4% Outside Italy.

As at 31 December 2021, the Intesa Sanpaolo Group held a 34.66% stake in the IDEA CCR Corporate Credit Recovery II Fund, Loans Sub-Fund, classified among Financial assets mandatorily measured at fair value, for a book value of 89.6 million euro. The measurement of the IDEA CCR II Fund yielded a negative effect on the income statement for the year of 23.9 million euro.

IDEA CCR Corporate Credit Recovery II Fund - Shipping Sub-fund

The Shipping Loans Sub-Fund refers to single-name, unlikely-to-pay non-performing loans with a sector focus on shipping companies.
The Fund consists of three loans sub-funds, new finance and shipping. Following the merger of UBI Banca, ISP also has an interest in the Shipping Sub-Fund, with a stake in the IDEA CCR II Fund – Shipping Sub-Fund.
In 2018, UBI Banca, which during the reporting year was merged into Intesa Sanpaolo, had sold loans with a total gross amount of 45 million euro and a net exposure of 31 million euro.

As at 31 December 2021, Intesa Sanpaolo held a 20.37% stake in the IDEA CCR II Fund, Shipping Sub-Fund, classified among Financial assets mandatorily measured at fair value, for a book value of 23.9 million euro. The measurement of the IDEA CCR II Fund yielded a negative effect of 0.4 million euro.

Clessidra Restructuring Fund

Clessidra Restructuring Fund (CRF Fund) is a closed-ended alternative investment fund reserved for institutional investors, dedicated to investing in loans classified as unlikely to pay to previously identified industrial companies.
In September 2019, UBI Banca, which during the reporting year was merged into Intesa Sanpaolo, had sold loans to five borrowers with a total gross amount of 17 million euro and a net exposure of 11 million euro, with concurrent subscription of the units of the CRF Fund for an amount essentially in line with the net value of the transferred loans.

The economic sector of the assigned debtors was mainly concentrated in "Manufacture of wooden doors and manufacture of furniture".
The transferred financial assets are primarily in the North-west area.

As at 31 December 2021, Intesa Sanpaolo held a 4.38% stake in the CRF Fund, classified among Financial assets mandatorily measured at fair value, for a book value of 8 million euro. The measurement of the IDEA CCR Fund yielded a positive effect of 0.8 million euro during the year.

Prudential consolidation - Covered bond transactions

Covered bond transactions where the selling Bank and the lending Bank are the same must be reported under this section. The Intesa Sanpaolo Group uses covered bonds mainly as a type of funding through securities guaranteed by assets originated by Intesa Sanpaolo or by other companies of the Group.

Over time, Intesa Sanpaolo has carried out three Covered Bond issue programmes.

The first programme, launched in 2009, has a maximum amount of 20 billion euro (the original maximum amount was 10 billion euro). The guarantor of the Covered Bonds is the vehicle ISP CB Pubblico, to which a portfolio of performing loans and securities to the public sector, originated by the former subsidiary Banca Infrastrutture Innovazione e Sviluppo, now Intesa Sanpaolo, was transferred. The Bank gradually sold the vehicle assets with a total original nominal value of 14.3 billion euro (net of retrocessions of assets of 0.5 billion euro). The last sale (amounting to around 1 billion euro) took place in April 2013. In September 2020, the retrocession of a customer was carried out for an amount of 132 million euro.
As at 31 December 2021, loans and securities sold to the vehicle had a book value of 3.5 billion euro.
Against these sales, Covered Bonds were issued over time for a total nominal value of 25.2 billion euro (of which 18.15 billion euro relating to issues acquired in full by the Parent Company and subject to early redemption or matured and 3.5 billion euro relating to an exchange offer to investors during 2012, of which 2 billion euro that matured in the second quarter of 2017 and the remaining 1.5 billion euro in January 2021).
As at 31 December 2020, a total nominal amount of 4.1 billion euro of issues made as part of the Covered Bond programme of the vehicle ISP CB Pubblico was outstanding, of which 4 billion subscribed by the Parent Company and 0.1 billion placed with third party investors.
In 2021, the third series of Covered Bonds matured for a total nominal amount of 1.5 billion euro and the fourteenth series was issued for an amount of 1 billion euro.
Therefore, as at 31 December 2021, a total nominal amount of 3.6 billion euro of issues made as part of the Covered Bond programme of the vehicle ISP CB Pubblico was outstanding, fully subscribed by Intesa Sanpaolo.
All the securities issued under the programme are listed on the Luxembourg Stock Exchange and have a Moody's A2 rating.

In the second programme, launched in 2010, amounting to a maximum of 25 billion euro (the original maximum amount was 20 billion euro), the guarantor of the covered bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans and, initially bonds issued by Adriano Finance S.r.l., originated by Intesa Sanpaolo, were transferred. The Bank gradually sold the vehicle mortgage loans with an original total nominal value of 35.8 billion euro (net of retrocessions).
During 2021, the following additional transactions were also finalised:

– in January repurchases were carried out for an amount of 265 million euro;
– in June sales were carried out for an amount of 2.2 billion euro.

As at 31 December 2021, the loans sold to the vehicle had a book value of 16 billion euro.
Over time, against the sale of these assets, Intesa Sanpaolo has carried out issues of Covered Bonds for a total nominal value of approximately 33.9 billion euro (of which a total of 18.4 billion euro subject to early redemption or matured at December 2021).
As at 31 December 2020, a total nominal amount of 16.9 billion euro of issues made as part of the covered bond programme of the vehicle ISP CB Ipotecario was outstanding, of which 12 billion placed with third party investors and 4.9 billion subscribed by Intesa Sanpaolo. Part of the latter was subsequently used in repurchase agreements for an amount of 1.8 billion euro.
The eleventh series matured in 2021 for an amount of 1.4 billion euro, and no new issues were made.
Accordingly, as at 31 December 2021, a total nominal amount of 15.5 billion euro of issues made as part of the covered bond programme of the vehicle ISP CB Ipotecario was outstanding, of which 10.6 billion placed with third party investors and 4.9 billion subscribed by Intesa Sanpaolo. Part of the latter was subsequently used in repurchase agreements for an amount of 343 million euro.
All the securities issued under the programme are listed on the Luxembourg Stock Exchange and have a Moody's Aa3 rating.

The third multi-originator Covered Bond issue programme, launched in 2012, has the vehicle ISP OBG S.r.l. as the guarantor of its securities. This programme is secured by mortgages for a maximum amount of 55 billion euro (the original maximum amount was 30 billion euro) and is aimed at realising the retained issues.
The portfolio used to collateralise the issues of Covered Bonds is composed of mortgages originated by Intesa Sanpaolo, Banco di Napoli, Cassa di Risparmio del Veneto, Cassa di Risparmio in Bologna and Banca CR Firenze (merged by incorporation into Intesa Sanpaolo between July 2018 and February 2019). Over time, the Intesa Sanpaolo Group sold mortgages to the vehicle for an original total nominal value of 82.4 billion euro (net of exclusions).
In 2021, Intesa Sanpaolo sold mortgages to the vehicle for an original total nominal value of 7.4 billion euro (net of exclusions). The following sales were carried out:

– in March, sales for an amount of 4.2 billion euro;
– in November, sales for a total of 3.5 billion euro.

In addition, the following loans were repurchased:

– in January, for an amount of 321 million euro;
– in May, for an amount of 0.1 million euro.

As at 31 December 2021, the loans sold to the vehicle by Intesa Sanpaolo had a book value of 47.8 billion euro.
Over time, against the sales of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 86.3 billion euro (of which 40.2 billion euro subject to early redemption and reimbursed). All the securities issued as part of the programme are listed on the Luxembourg Stock Exchange and have a DBRS Morningstar A (High) rating.

As at 31 December 2020, the issues made under the programme guaranteed by the vehicle ISP OBG had a total nominal amount of 45.9 billion euro, fully subscribed by Intesa Sanpaolo and subsequently used in repurchase agreements for 50 million euro.
During 2021:
- in January, the securities of the seventeenth and eighteenth series were redeemed in advance for a total of 2.7 billion euro;
- in January, the forty-fifth and forty-sixth series of Covered Bonds were issued, each amounting to 1.35 billion euro, at floating rate and with maturities of 15 and 16 years, respectively;

Accordingly, as at 31 December 2021, a total nominal amount of 45.9 billion euro of issues made as part of the Covered Bond programme of the vehicle ISP OBG was outstanding, fully subscribed by Intesa Sanpaolo.

The companies of the former UBI Banca Group included two covered bond programmes, run by two special purpose vehicles named UBI Finance S.r.l. and UBI Finance CB2 S.r.l., respectively.

The first programme, UBI Finance, was launched by the former UBI Banca Group in 2008 and still provides Intesa Sanpaolo with the right to issue securities, targeted to institutional investors, for a maximum amount of 15 billion euro. The Programme includes a portfolio of residential mortgage loans assigned by the UBI Group's network banks. These banks participated in the programme as Originator Banks and Lending Banks.
In January 2021, an operation was finalised for the repurchase of loans totalling 5.2 billion euro (in terms of residual principal debt), of which 5 billion euro repurchased by Intesa Sanpaolo (former UBI Banca) and 0.2 billion euro repurchased by IW Bank, equal to its entire portfolio at the repurchase date. In March 2021, an additional operation was then finalised for the repurchase of loans totalling 0.4 billion euro (in terms of residual principal debt), fully repurchased by Intesa Sanpaolo (former UBI Banca).
As at 31 December 2021, the loans sold to the vehicle had a book value of 8.9 billion euro.
During 2020, no new issues of securities or repayments of outstanding issues were carried out. Therefore, considering the various bonds issued in the previous years, the nominal value of the securities as at 31 December 2020 totalled 12 billion euro.
During 2021:
- in January, the nineteenth and thirty-second issues were cancelled for a total of 1.5 billion euro and the sixth issue matured for an amount of 0.95 billion euro;
- in April, the third issue was redeemed for an amount of 11.4 million euro;
- in June, the thirtieth series was partially redeemed for an amount of 200 million euro;
- in October, the third issue was redeemed for an amount of 11.4 million euro;
- in November, the twenty-ninth series was partially redeemed for an amount of 200 million euro.

Accordingly, as at 31 December 2021 a total nominal amount of 9.1 billion euro of issues made as part of the covered bond programme of the vehicle UBI Finance was outstanding, of which 7.5 billion placed with third party investors and 1.6 billion retained.
At the same date, the bonds under the programme were assigned an Aa3 rating from Moody's and AA from DBRS Morningstar.

The former UBI Banca Group's second covered bond programme, UBI Finance CB2, was closed in January 2021.

The key figures for ISP CB Pubblico, ISP CB Ipotecario, ISP OBG, and UBI Finance as at 31 December 2021 are shown in the table below.

(millions of euro)

COVERED BONDS		VEHICLE DATA		SUBORDINATED LOAN (1)	COVERED BONDS ISSUED	
		Total assets	Cumulated write-downs on securitised portfolio	amount	Nominal amount (2)	Book value (2)
ISP CB PUBBLICO	Performing public sector loans and securities	4,666	12	4,567	-	-
ISP CB IPOTECARIO (3)	RMBSs (Performing residential mortgages)	21,009	60	19,921	10,951	11,320
ISP OBG	Mortgages	56,473	231	56,381	-	-
UBI FINANCE	Residential mortgages	10,566	81	10,549	7,508	7,846

(1) This caption includes the subordinated loan granted to the vehicles for the purchase of the portfolio lodged as collateral for the CB. This loan is derecognised in the IAS-compliant separate financial statements. The amount of the loan refers to the issue already executed as part of an issue programme with a higher maximum amount.

(2) The nominal amount and the book value shown in the table are to be considered net of securities repurchased.

(3) The covered bonds (CB) issued by Intesa Sanpaolo were placed on the market with institutional investors for almost the entire amount issued.

In addition to this type of Covered Bonds, provided for by Italian law (Law 80/2005), there are some mortgage bonds issued by the Slovak investee VUB. These are securities whose nominal value and returns are guaranteed by mortgage loans, i.e. loans to individuals with residual maturities up to 30 years, backed by a pledge on property located in the Slovak Republic, with a maximum loan-to-value of 80%.
Each issue has specific coverage, and the entire nominal value of the issue, including interest, must be backed by mortgage loans on local properties on at least 90% of their nominal value, and the remaining 10% possibly by liquidity or deposits with the National Bank of Slovakia, the European Central Bank, other European central banks or banks that meet the criteria set out in Art. 129(1)(c) of Regulation (EU) 575/2013.
To cover the negative net cash flows expected from the covered bonds at 180 days, the issuer must maintain high-quality liquid assets pursuant to Articles 10 and 11 of Regulation (EU) 61/2015.
As at 31 December 2021, the subsidiary VUB had issued 3.8 billion euro in this type of securities, booked in the financial statements at a value of approximately 3.8 billion euro

E. PRUDENTIAL CONSOLIDATION - MODELS FOR THE MEASUREMENT OF CREDIT RISK

As at 31 December 2021, the expected loss on performing loans to customers (which takes account of cash and unsecured loan types) was 0.39%, in line with the figure at the end of 2020; the stable incidence is due to the offsetting of the incremental effects of the banks and public entities model change balanced by the effects of the Retail SME model change and the decline in operations associated with higher risk profiles.
As at 31 December 2021, economic capital was 2.44% of disbursed loans, up slightly, considering performing loans to customers only, on the figure for 2020 (+0.10%). This change was mainly due to the corporate integration process of the former UBI Group, concluded in the second quarter of the year, resulting in full harmonisation of procedures for calculating the Parent Company's economic capital and, to a more marginal extent, the average increase in the LGD parameter for sovereign exposures resulting from the implementation of the new model in the fourth quarter of the year.
For the companies included in the roll out plan, the LGD and EAD internal regulatory rating models are subject to a second level of control by the Validation function, as described in paragraph 2.3 of this Section, and a third level of control by the Internal Auditing function. The control functions produce annual reports for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also includes a verification on the deviations of the ex-ante estimates and the effective ex post values. These reports, approved by the Board of Directors of Intesa Sanpaolo, confirm the compliance to the regulatory requirements.